

I. Introduction

What is this report?

This report describes the progress made in implementing the HUBZone Empowerment Contracting Program (HUBZone program). The HUBZone Act of 1997 was enacted into law on December 2, 1997 as Title VI of the Small Business Reauthorization Act of 1997. This law provides for a new Federal program designed to stimulate small business enterprises that operate in distressed urban and rural areas within the United States. The purpose of the HUBZone legislation was to direct a portion of Federal procurement dollars to businesses that are located in and employ residents of historically underutilized business (HUB) zones. HUBZone areas are rural counties and metropolitan area census tracts with high unemployment and/or low income as determined by the Bureau of Labor Statistics and/or the Department of Housing and Urban Development. All Federally recognized Indian reservations, as well as lands covered by phrase ‘Indian Country,’ are also specifically designated as HUBZone areas.

Why is this report being submitted?

Section 606 of the HUBZone Act of 1997 states that “Not later than March 1, 2002, the Administrator shall submit to the Committees a report on the implementation of the HUBZone program ...[specifically] the degree to which the HUBZone program has resulted in increased employment opportunities and an increased level of investment in HUBZones.” This report responds to this legislative requirement.

What is the scope of this report and its limitations?

Because the HUBZone program is so new, there is a dearth of empirical historical data available for the initiative. In addition, as noted in a recent General Accounting Office report (GAO-02-57) entitled, “HUBZone Program Suffers from Reporting and Implementation Difficulties,” there has been limited FY 2000 contract activity and much of the contract data that does exist is suspect. Consequently, it is not possible to conduct a meaningful *quantitative* analysis of the economic impact of the HUBZone program at this time. However, this report provides *qualitative* information on the impact of the HUBZone program, statistical data on the firms currently participating in the HUBZone program and descriptive information on the SBA’s efforts to develop and implement the HUBZone program. This report was prepared using information from:

- ? SBA data collected from program applications submitted by HUBZone-certified firms through December 2001.
- ? Federal Procurement Data Center (FPDC) information on HUBZone contracts awarded in FY00 (through September 30, 2000) and in FY01 (through September 30, 2001).

- ? Case studies of the impressions, impact and expectations of the HUBZone program.
- ? General Accounting Office (GAO) report (GAO-02-57) dated October 2001, entitled “HUBZone Program Suffers From Reporting and Implementation Difficulties.”

What’s in this report?

- ? Section II provides background information and important milestones for the HUBZone program.
- ? Section III explains why the HUBZone program is unique among Federal initiatives.
- ? Section IV discusses the current status of the HUBZone program including the SBA’s administrative structure for managing the program, statistical information regarding current program participants, and a report of contract activity for the program.
- ? Section V summarizes the SBA’s efforts to use “entrepreneurial government” and information technology to implement the HUBZone program.
- ? Section VI details the various stages of the HUBZone program implementation, provides an assessment of the impact of FY 2000 contract activity on current HUBZone program participants and summarizes key conclusions of the case studies of HUBZone program implementation across various HUBZone program constituencies.
- ? Section VII presents key findings of this report and recommendations for improving the HUBZone program.
- ? Appendix A contains the detailed conclusions of the case studies undertaken for this report.
- ? Appendix B proposes a quantitative methodology that could be used in the future to measure the economic impact of the HUBZone program.
- ? Appendix C presents HUBZone contract data for FY 2001.

II. Background Information

Historical background

In 1996, the President Clinton signed Executive Order 13005 facilitating “empowerment contracting,” to encourage business in areas of “general distress,” but it was never fully implemented.

In 1996, U.S. Senator Christopher ‘Kit’ Bond, then chair of the Senate Small Business Committee, sponsored legislation providing preferences for Federal contracting awards to small businesses located in economically distressed areas (HUBZones).

In 1997, Congress passed and the President signed into law the “Small Business Reauthorization Act of 1997,” containing “The HUBZone Act of 1997.”

Statutory and regulatory authority

The HUBZone Act of 1997 established the HUBZone program as part of Title VI of the Small Business Reauthorization Act, Public Law 105-135, signed into law on December 2, 1997.

Proposed rules and regulations for the HUBZone program were issued on April 2, 1998. After the public comment period, final rules and regulations were published on June 11, 1998, Chapter 13 Code of Federal Regulations (CFR), Part 126.

The HUBZone program’s interim Federal Acquisition Regulation (FAR) rule (FAC 97-10, FAR Case 97-307) was published on December 18, 1998, with an effective date of January 14, 1999. The rule implemented the contracting component of the program. The final FAR rule was published on September 24, 1999, in 48 CFR.

An amended final rule appeared in the *Federal Register* on January 18, 2001 and became effective February 20, 2001, which explained the effect of the program on state and local governments, clarified the definition of principal office, removed certain restrictions on affiliation and expanded participation for resellers and retailers.

The HUBZone program was also modified by the Small Business Reauthorization Act of 2000, which was signed into law December 2000 and clarified issues concerning program eligibility with regard to the geographic eligibility and ownership restrictions.

Intent of the program

The intent of the HUBZone program is to provide Federal contracting assistance to qualified small businesses located in distressed communities (HUBZones) to increase employment opportunities and stimulate capital investment.

HUBZones are specifically designated urban or rural areas that have low median household income and/or high unemployment rates. As of January 2002, approximately 7,000 metropolitan-area census tracts and 900 non-metropolitan counties qualified as

HUBZones. In addition, all Federally recognized areas covered by the phrase 'Indian Country' are statutorily designated as HUBZones.

Congress specified HUBZone contracting goals for all Federal agencies as part of the HUBZone Act of 1997. At the same time, Congress increased the government-wide procurement goal for small business from 20 percent to 23 percent to address concerns that the HUBZone program would reduce contract opportunities available to other, non-HUBZone small businesses. The goals for HUBZone contracting assigned to Federal agencies were set as a percentage of total Federal prime contracting. Specifically, the goals were set as follows: FY 1999 - 1 percent; FY 2000 - 1 ½ percent; FY 2001 - 2 percent; FY 2002 - 2 ½ percent; FY 2003 - 3 percent; and each year thereafter for all Federal prime contracts.

Through the end of September 2000, the HUBZone program applied only to the procurements of ten specifically identified Federal agencies. However, as of October 1, 2000, the HUBZone contracting requirements and goals are applicable to all Federal agencies with at least one contracting officer.

SBA's responsibilities

The 1997 Small Business Reauthorization Act gave the SBA responsibility for administering the HUBZone program. Specifically the SBA is required to perform the following functions:

- ? Devise and implement a means of determining what businesses qualify for HUBZone contracting benefits.
- ? Conduct periodic random examinations of HUBZone program participants to insure continued compliance with governing eligibility requirements
- ? Maintain a list of qualified HUBZone small businesses which Federal agencies can use to locate potential suppliers.
- ? Adjudicate protests concerning a firm's eligibility to receive HUBZone contracts.
- ? Report to Congress the program's impact on employment and investment in HUBZone areas.

As detailed throughout this report, the SBA sees itself as having fulfilled all of these requirements.

HUBZone program eligibility and contract options

With certain limited exceptions, a small business qualifies for the HUBZone program if it meets the following criteria:

- ? Its principal office is located in a designated HUBZone area.
- ? It is owned and controlled by one or more U.S. citizens, Indian Tribal Governments, Alaska Native Corporations (ANCs) and/or Community Development Corporation(s) (CDC).

? At least 35 percent of its employees reside in a HUBZone.

A "HUBZone," is an area that is located in one or more of the following:

? A qualified census tract (as defined in section 42(d)(5)(C)(i)(I) of the Internal Revenue Code of 1986);

? A qualified "non-metropolitan county" (as defined in section 143(k)(2)(B) of the Internal Revenue Code of 1986) with a median household income of less than 80 percent of the State median household income or with an unemployment rate of not less than 140 percent of the statewide average, based on U.S. Department of Labor recent data; or

? Is within the external boundaries of Federally recognized Indian reservations or qualify as lands covered by the phrase 'Indian Country.'

There are three HUBZone contract methods.

? A *competitive* HUBZone contract is awarded when the contracting officer has a reasonable expectation that at least two qualified HUBZone small businesses will submit offers and that the contract can be awarded at a fair market price.

? A *sole source* HUBZone contract may be awarded if the contracting officer does not have a reasonable expectation that two or more qualified HUBZone small businesses will submit offers, determines that the qualified HUBZone small business is responsible, and determines that the contract can be awarded at a fair price. The Government estimate cannot exceed \$5 million for manufacturing requirements or \$3 million for all other requirements.

? A *full and open competition* contract may be awarded after application of the HUBZone price evaluation preference. The offer of the HUBZone small business will be considered lower than the offer of a non-HUBZone/non-small business providing that the offer of the HUBZone small business is not more than 10 percent higher.

HUBZone program milestones

? March 22, 1999 -- SBA officially launches the HUBZone program.

? March 24, 1999 -- SBA certifies first HUBZone Small Business Concern.

? April 8, 1999 -- First HUBZone contract is awarded.

? March 31, 2000 -- 1000th HUBZone firm certified.

? October 10, 2000 -- 2000th HUBZone firm certified.

? May 1, 2001 -- 3000th HUBZone firm certified.

? September 19, 2001 -- 4000th HUBZone firm certified.

III. The Unique Nature of the HUBZone program

The HUBZone program is unique because it directs Federal contract dollars to small businesses located in areas of high unemployment and low-income to stimulate economic development. This combination provides a mechanism that reconciles the cost of providing Federal assistance to distressed communities with the need of the Federal Government to acquire products and services at fair prices. By using Federal procurement dollars to provide economic development, the HUBZone program is able to bridge the gap between the cost of Federal initiatives aimed at revitalizing distressed communities on the one hand, with benefits of market-based economic development on the other.

The HUBZone program is not the only procurement preference program intended to assist specifically designated small businesses through access to Federal procurement. However, it is significantly different from other programs, such as the 8(a) Business Development [8(a)] and the Small Disadvantaged Business [SDB] programs. The HUBZone program differs from the 8(a) and SDB programs in that HUBZone eligibility is not based on the demographic and economic characteristics of the firms' owners. Instead, the HUBZone program is a place-based economic development program that provides benefits based on the location of the business and residency of the business' employees. It seeks to use the Federal marketplace to encourage jobs and development in economically stagnant areas by allowing the government to function as a short-term customer while the business builds its client base.

Since the creation of the first enterprise zones in the late 1970s, state, local, and Federal Government initiatives have attempted to spur employment and investment in designated—usually lower-income—areas through incentives. Employment and housing tax credit programs and several other initiatives currently exist in virtually every state. However, the HUBZone program's combination of small business procurement and geographic focus is without precedent. It represents the culmination and evolution of 40 years of economic development and procurement incentives. The requirements of the program ensure that Federal dollars are channeled to businesses located in distressed areas. Further, the employee residency requirement takes advantage of the socioeconomic theory of the “multiplier effect.” The multiplier effect asserts that each dollar injected directly into a local community is spent several times within that community, thereby ratcheting upward the overall economic impact of each dollar.

The HUBZone program is also unique in the way SBA has structured and administered it. As an example of “entrepreneurial government,” the HUBZone program is designed to be customer-oriented and user-friendly, while operating with nominal staffing. The program's lean staffing levels are possible because of the heavy reliance on innovative, technology-based methods of program implementation and delivery. The HUBZone program operations are structured to accomplish sizeable objectives using relatively few resources.

Finally, the HUBZone program is unique because state and local governments can readily and cost-effectively replicate it. Virtually every state and local government operates some type of economic development initiative designed to increase capital investment and reduce unemployment. In order of magnitude and geographical dispersion, purchases of state and local governments far exceed those of the Federal Government. Recognizing this circumstance, the SBA has designed the HUBZone program so that state and local governments can adopt the program for their own use with minimal costs for implementation.

IV. Current Status of the HUBZone program

HUBZone program staffing

The HUBZone program currently employs seven full-time Federal employees dedicated to administering the program. The staff consists of:

- 1) an associate administrator;
- 2) an area director,
- 3) a lead program analyst,
- 4) an information technology systems administrator, and
- 5) three program analysts.

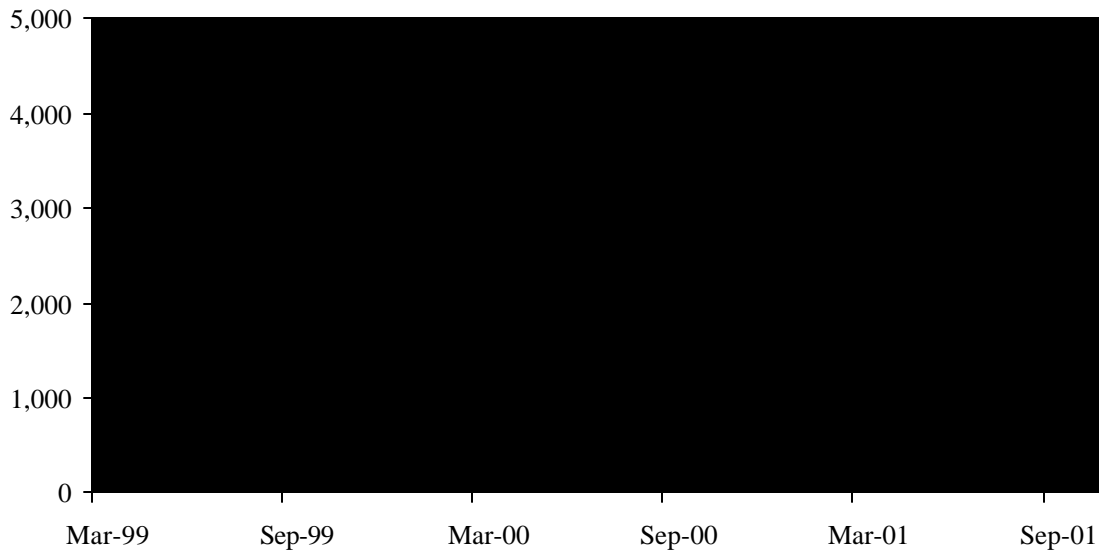
Applying for HUBZone-certification by small business concerns (SBCs)

The HUBZone Program has developed an on-line application system that allows small businesses to apply for certification using the Internet. The system contains built-in logic functions that electronically review program applications against eligibility criteria. This process immediately notifies an applicant if he/she has entered data that may lead to a determination of ineligibility, even before the application is submitted. In addition, all applicants are re-evaluated by HUBZone staff before certification and are subject to random examinations to insure continuing eligibility. Moreover, HUBZone SBCs are subject to additional investigation at the time of a contract award if their eligibility is challenged through the HUBZone protest process.

Even though the HUBZone program is a relatively new Federal initiative, the SBA has been able to provide contracting officers a wide array of firms to choose from when searching for a vendor for goods and services. As of September 30, 2001, 4,027 SBCs were certified for participation in the HUBZone program.

As illustrated in chart 4.1, the number of HUBZone-certified SBCs has grown steadily since the program's inception. At the current growth rate, by the end of 2003, the HUBZone program will become the SBA's largest small business certification program in terms of the number of participants.

**Chart 4.1: Number of HUBZone-certified SBCs,
March 1999 to September 2001**



Growth in HUBZone-certified SBCs by state and territory.

In the first 18 months of processing applications, SBA certified about 2000 firms into the HUBZone program. FY 2001 saw a 103.7 percent increase in the number of HUBZone-certified SBCs, raising the total number of certified firms to more than 4,000. As of September 30, 2001, California had the highest number of certified HUBZone SBCs with 296, followed by Virginia with 211, Washington with 210, Texas with 186, Oregon with 184, and Florida with 157.

As seen in Table 4.1, substantial growth in the number of HUBZone-certified SBCs has occurred in virtually every state.

While the HUBZone program experienced tremendous growth through certifications, it also has a high level of demographic diversity in terms of SBC ownership. Minority-owned SBCs (identified as such using SBA's *PRO-Net* database) represent a significant portion of the total population of HUBZone SBCs: 43 percent of all certified HUBZone SBCs are minority-owned. Further, 17 percent of HUBZone-certified SBCs are also participants in the SBA's 8(a) program, while 23 percent of HUBZone-certified SBCs are certified as SDBs. This is important in that it demonstrates that HUBZone, 8(a) and SDB preference programs share a common participant base, a reality that challenges any misconception that a contract success for the HUBZone program must be seen as a loss for the 8(a) program, and vice versa.

Table 4.1: HUBZone-certified SBCs by state, September 30, 2000 and 2001

	Number of Certified SBCs			Pct of Minority Owned SBCs (2001)		Number of certified SBCs		Percent Change 2000-01	Pct of Minority Owned SBCs (2001)
	2000	2001	2000-01			2000	2001		
Alabama	61	110	80.3	47.3	Montana	39	94	141.0	25.5
Alaska	49	87	77.6	43.7	Nebraska	11	8	-27.3	37.5
Arizona	43	74	72.1	54.1	Nevada	18	33	83.3	27.3
Arkansas	12	24	100.0	58.3	New Hampshire	4	10	150.0	10.0
California	132	296	124.2	57.1	New Jersey	29	49	69.0	65.3
Colorado	31	67	116.1	49.3	New Mexico	38	76	100.0	75.0
Connecticut	8	21	162.5	19.0	New York	40	113	182.5	35.4
District of Columbia	49	86	75.5	76.7	North Carolina	47	92	95.7	33.7
Delaware	1	3	200.0	66.7	North Dakota	29	39	34.5	61.5
Florida	80	157	96.3	46.5	Ohio	60	118	96.7	49.2
Georgia	44	102	131.8	57.8	Oklahoma	39	72	84.6	48.6
Hawaii	11	29	163.6	48.3	Oregon	65	184	183.1	12.0
Idaho	71	144	102.8	14.6	Pennsylvania	65	116	78.5	37.9
Illinois	38	72	89.5	59.7	Puerto Rico	3	9	200.0	100.0
Indiana	18	35	94.4	40.0	Rhode Island	2	2	0.0	100.0
Iowa	9	16	77.8	43.8	South Carolina	26	43	65.4	37.2
Kansas	19	24	26.3	75.0	South Dakota	16	26	62.5	50.0
Kentucky	41	75	82.9	17.3	Tennessee	35	70	100.0	40.0
Louisiana	37	66	78.4	63.6	Texas	85	181	112.9	73.5
Maine	22	38	72.7	2.6	Utah	11	32	190.9	43.8
Maryland	52	97	86.5	75.3	Vermont	3	6	100.0	16.7
Massachusetts	7	34	385.7	64.7	Virgin Islands	1	2	100.0	50.0
Michigan	70	117	67.1	41.9	Virginia	102	211	106.9	37.4
Minnesota	17	45	164.7	40.0	Washington	86	210	144.2	29.5
Mississippi	32	66	106.3	50.0	West Virginia	13	29	123.1	24.1
Missouri	25	44	76.0	47.7	Wisconsin	30	60	100.0	26.7
					Wyoming	14	35	150.0	14.3
					TOTAL	1,890	3,849	103.7	44.3

Chart 4.2 shows the progressive expansion (concurrent to the number of SBCs certified) in the number of employees at HUBZone-certified firms—from the program’s first enrollments in March 1999 to December 2001. HUBZone-certified firms now employ over 70,000 people, of whom 50,000 reside in a HUBZone. That 50,000 total is more than double the number that would be expected if applicant firms only were meeting the minimum 35% statutory employment requirement for participating firms.

Even considering the limitations of applying the results of micro-economic analysis on the macro level, it’s reasonable to conclude that the award of any Federal contract to a HUBZone-certified small business concern should result in increases in jobs and capital investment in economically stagnant areas, a primary goal of the initiative. The uses of the HUBZone-specific contract mechanisms (i.e. -- set-aside, sole source and price evaluation preferences) are enhancement devices that make these vendor selections possible when there’s a need to overcome other extenuating circumstances.

Chart 4.2: Total number of employees vs. HUBZone-resident employees, HUBZone-certified firms, March 1999 to September 2001

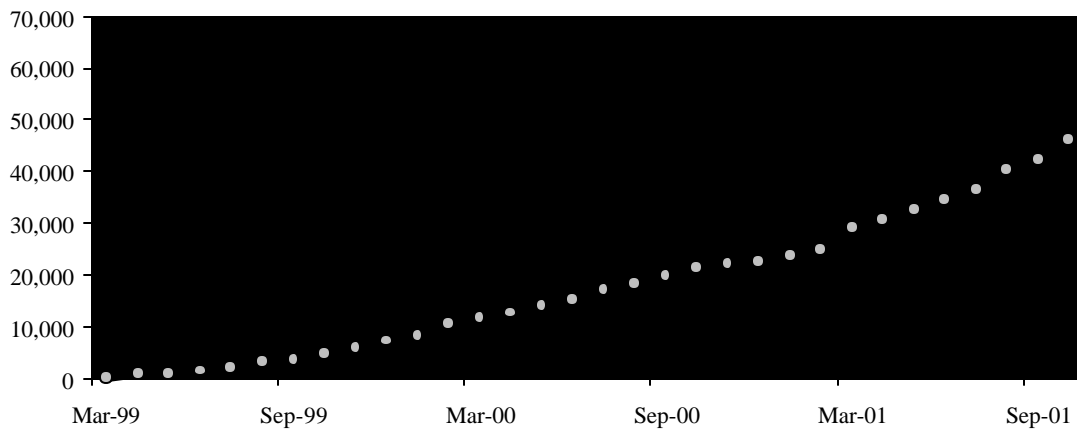
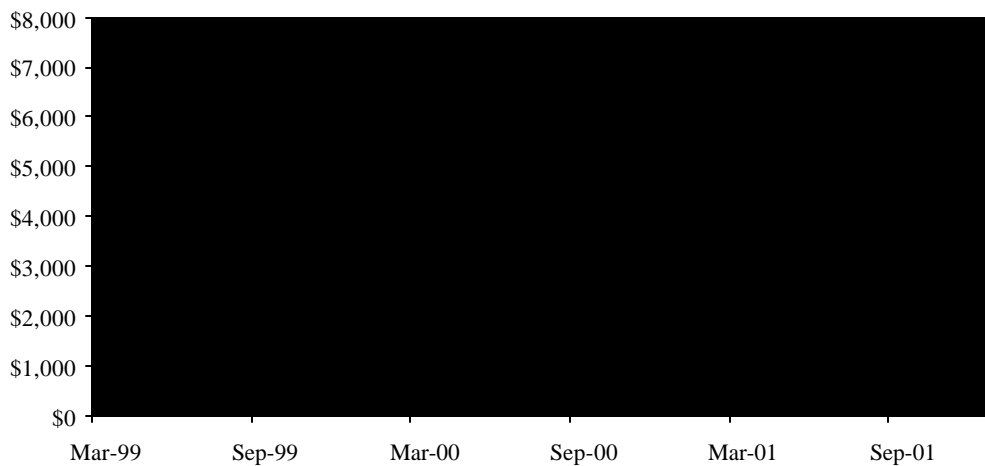


Chart 4.3 illustrates the increase in the aggregate amount of total revenues generated by HUBZone-certified firms from 1999 to 2001. As of 2001, HUBZone certified firms accounted for \$7.0 billion in annual gross income (average 3-year revenue).

Chart 4.3: Total annual gross income (revenue) of HUBZone-certified firms, March 1999 to December 2001 (\$ Million)



Age of HUBZone-certified SBCs.

Table 4.2 indicates the year in which HUBZone-certified SBCs were founded. The population of certified SBCs was sampled on two dates -- September 27, 2000, and November 17, 2001. The level of experience and longevity of the SBCs coming into the HUBZone program between 2000 and 2001 appears to be static. The HUBZone program appears to have universal appeal.

Some 21 percent of SBCs are characterized as new, founded after 1998. At the same time, 16 percent of the SBCs were founded prior to 1980. These numbers indicate that

not only might the HUBZone program be encouraging the establishment of new businesses, but that the program is also attracting established SBCs as well. Both of these sectors are important to balanced community development.

Table 4.2: Founding year for HUBZone-certified SBCs, 2000 and 2001

Year Founded	HUBZone SBCs as of			
	<u>27-Sep-2000</u>	<u>(%)</u>	<u>17-Nov-2001</u>	<u>(%)</u>
Prior to 1980	226	15.6	631	16.1
1980-89	361	25.0	837	21.4
1990-95	393	27.2	927	23.7
1996-98	290	20.1	700	17.9
1999-2000	176	12.2	632	16.2
2001	NA	-	183	4.7
Not available	444	-	394	-
TOTAL	1,890	100	4,304	100

Program examinations, including random examinations

The 1997 law creating the HUBZone program calls on the SBA to establish procedures for verifying eligibility and includes a follow-on provision that the procedures “may provide for program examinations (including random program examinations).”

The development of a HUBZone portfolio only began in March 1999, when the Agency first began accepting applications for certification. The pool of HUBZone certified small business concerns grew to 2,000 by the end of FY2000, leading the HUBZone managers to set a goal of conducting 200 program examinations, or 10 percent of the portfolio, by the end of FY 2001. The actual number achieved was 208 program examinations.

To increase the productive value of future program examinations, these reviews will now be focused on a representative sampling from the top 100 firms that actually received HUBZone contracts in the previous fiscal year. In some cases, these program examinations may be completed working with the SBA Inspector General.

Revenue generation of HUBZone-certified SBCs

Table 4.3 provides information on the average annual gross income (AGI) of HUBZone-certified SBCs. As of November 17, 2001, the median AGI for all HUBZone certified SBCs was \$439,400. Approximately 33 percent of all HUBZone SBCs generated revenues of \$150,000, while about 28 percent, reported \$1 million or more in revenue. The doubling of the population of HUBZone-certified SBCs during FY 2001 had very little effect on the overall AGI of this population: the median AGI for HUBZone-certified SBCs was \$412,500 as of September 27, 2000, and \$439,400 as of November 17, 2001.

**Table 4.3: Annual gross revenue for HUBZone-certified SBCs,
September 2000 and November 2001**

<u>Annual gross revenue</u>		<u>Number of HUBZone-certified SBCs:</u>		<u>Percentages for 2001:</u>	
		<u>9/27/2000</u>	<u>11/17/2001</u>	<u>(%)</u>	<u>Cum. %</u>
[Covers start-ups]	\$0-\$100	256	722	18.1	18.1
	\$101-\$19,999	40	121	3.0	21.1
	\$20,000-\$59,999	91	101	2.5	23.6
	\$60,000-\$99,999	49	151	3.8	27.4
	\$100,000-\$149,999	98	222	5.6	33.0
	\$150,000-\$249,999	96	248	6.2	39.2
	\$250,000-\$399,999	123	311	7.8	47.0
	\$400,000-\$599,999	118	315	7.9	54.9
	\$600,000-\$999,999	120	327	8.2	63.0
	\$1,000,000-\$1,499,999	114	322	8.1	71.1
	\$1,500,000-\$2,499,999	133	345	8.6	79.7
	\$2,500,000-\$3,999,999	126	319	8.0	87.7
	\$4,000,000-\$7,499,999	96	293	7.3	95.1
	\$7,500,000-\$14,999,999	44	136	3.4	98.5
	\$15,000,000-\$25,000,000	11	44	1.1	99.6
	More than \$25,000,000	4	17	0.4	100.0
	Not available	371	179		
TOTAL		1,890	4,173	100	

HUBZone contract awards in fiscal year 2000

The accuracy of the FY 2000 HUBZone contracting data as submitted by procuring agencies to the Federal Procurement Data Center (FPDC) is highly suspect, based on findings contained in the General Accounting Office's October 2001 report on the HUBZone program (GAO-02-57). The FPDC HUBZone FY 2000 total is \$663 million.

To more accurately assess the true impact of the HUBZone program, SBA scrutinized in greater detail the FY 2000 contract data submitted to FPDC by comparing SBCs reportedly receiving HUBZone contracts against the SBA's database of HUBZone certified SBCs. This internal SBA analysis indicates that during FY 2000, HUBZone certified SBCs more realistically received \$520 million in Federal contract actions, which is approximately .25 percent of all Federal contract awards made in that fiscal year. This is well below the FY 2000 HUBZone government-wide goal of 2 percent.

The greatest obstacle to realizing the full economic benefit of the HUBZone program in distressed communities is the ease with which contracting officers can use alternate procurement vehicles. These mechanisms include General Services Administration (GSA) schedules and Government-wide Acquisition Contracts (GWACs). During FY 2000, as noted in the previously mentioned GAO report, no Federal agency met its statutorily mandated HUBZone contracting goal.

Table 4.4 provides an even more refined SBA analysis by further segmenting the contracts to just those awards made using one of the three HUBZone preference mechanisms (i.e. – set-aside, sole source or price evaluation preference in full and open competition). This totals \$59.5 million.

Table 4.4: HUBZone contract actions as a result of a HUBZone preference, FY 2000

Detail by agency:	Number of contractual: Contract dollar value:			
	Awards	Modifications	in \$ 000	(%)
Department of Agriculture	14	16	14,856	25.0
Department of Defense	41	44	23,917	40.2
Department of Energy	2	1	284	0.5
Department of the Interior	10	5	1,926	3.2
Department of Labor	1	2	231	0.4
Department of Transportation	10	1	3,636	6.1
General Services Administration	5	0	1,903	3.2
National Aeronautics and Space Administration	4	1	1,767	3.0
Veterans Administration	26	31	10,949	18.4
TOTAL	113	101	\$59,469	100.0

Given SBA’s analysis that HUBZone SBCs received approximately \$520 million in contract awards in FY 2000 and \$59.5 million of this total was awarded using HUBZone preferences, then just over 11% of all contracts going to HUBZone firms were awarded using a HUBZone preference.

In an overall effort to improve the quality of HUBZone contract data and more specifically as a response to report GAO-02-57, the SBA has been working with the Office of Federal Procurement Policy to create systems and procedures that will result in a more accurate accounting of government-wide HUBZone contract activity.

The GAO’s October 2001 report recommendations are presented below in *italics* followed by text taken from a letter signed jointly in March 2002 by SBA Administrator Hector V. Barreto and OFPP Administrator Angela B. Styles. The letter contained specific actions that SBA and the Office of Federal Procurement Policy planned to initiate cooperatively to improve the circumstance of HUBZone contract data collection.

[BEGIN JOINT LETTER TEXT]

1) To improve the accuracy of the data reported by federal agencies, we recommend the Administrator, Office of Federal Procurement Policy, in consultation with SBA when appropriate, strengthen the guidance for all federal agencies about reporting small business program contracting activities to the Federal Procurement Data Center (FPDC). At a

minimum, this guidance should address how the forms should be completed and verified, and clarify how to report which small business preference program was used to award the contract.

OFPP, in consultation with SBA, will review the guidance in the Federal Procurement Data System (FPDS) Reporting Manual relating to reporting information on small business programs and make changes, as appropriate, to strengthen the guidance. OFPP will ensure that the guidance is clear on how to report contract actions awarded using small business preference programs. Upon completion of the review, OFPP will forward the revised guidance to the reporting agencies for review and ask that they review their guidance and reporting forms to make sure they are consistent with the FPDS guidance.

2) To improve the accuracy of data at an agencywide level, we recommend the Administrator of SBA develop guidance for all federal agencies about identifying contracts to be reported to the FPDC that meet the HUBZone Act criteria.

SBA will develop guidance that clarifies which contracts meet the criteria for the HUBZone program. The GAO report states that SBA did not provide guidance about which contracts to count toward goal achievement when small businesses become certified HUBZone firms during the life of an existing contract. SBA's policy is that a contract awarded to a small business that is not certified as a HUBZone small business should not count towards HUBZone goal achievement, regardless of whether the firm became certified during the life of the contract. However, SBA is reviewing that policy as it relates to Federal Supply Schedule Contracts and other indefinite quantity contracts where the small business may become HUBZone-certified prior to issuing delivery or task orders against those contracts. SBA will, in consultation with OFPP, determine the appropriate policy regarding these contract types and ask that OFPP include it in the FPDS Reporting Manual for dissemination to the agencies.

3) To help ensure that FPDC does not perpetuate data inaccuracies, we also recommend that the Administrator, Office of Federal Procurement Policy, develop follow-up review procedures to emphasize to federal agencies their responsibility in providing accurate data and promptly correcting inaccurate data.

OFPP will issue a memorandum to departments and agencies that emphasizes their responsibility to report accurate and complete information to the FPDS. Further, OFPP will work with the FPDC to establish procedures that require agencies to promptly correct inaccurate data.

4) To help contracting officers identify firms with the appropriate capabilities, we also recommend the Administrator of SBA inform small businesses listed in PRO-Net about the importance of entering and maintaining timely, complete, and accurate data.

Although SBA agrees with this recommendation, the Agency's FY 2002 budget did not include funding for the continued operation of the PRO-Net system. Therefore, the SBA has requested congressional approval to re-program funding that will support its continued

operation. Subject to receipt of such approval, SBA will intensify its efforts to increase the currency of PRO-*Net* records.

[END JOINT LETTER TEXT]

It should be noted that FPDC data for FY 2001 indicates that HUBZone certified SBCs received \$1.6 billion in Federal contract actions and at least four agencies met or exceeded the 2 percent HUBZone goal.¹ Realizing the shortcomings of previous data collections and recent efforts to improve overall quality, it's expected that this latest data will be more accurate.

During FY 2000 19.8% (287 individual firms) of all HUBZone certified firms received some form of Federal prime contract action. There were 95 individual firms (6.6% of the fiscal year end portfolio) that received Federal prime contract actions because they were HUBZone certified.

¹ The collection of data for HUBZone contract awards through the FPDC presents some reporting challenges. Recording a HUBZone contract in the FPDS requires the action be classified as a HUBZone contract by the procurement officer, that it be recorded as such in the agency's reporting system, that the record be accepted as a HUBZone contract in the agency's central records, and that the FPDS accept and classify the award as a HUBZone contract. So procurement officers must be aware of the program, have a reporting system that accommodates the HUBZone program and be able to transmit that data to the FPDS.

Table 4.5 provides a state-by-state breakdown of HUBZone contract awards made to HUBZone SBCs using one of the three preference mechanisms. These contracts were awarded to HUBZone SBCs in 32 states. These 32 states had, on average, 2.5 times as many HUBZone-certified SBCs (an average of 48 per state) as the 18 states in which no awards were made (an average of 19 per state).

Table 4.5: FY2000 HUBZone contract awards by state

<u>Detail by state:</u>	<u>No. of awards</u>	<u>Dollar value (\$000)</u>	<u>Awarding agencies</u>
Alaska	2	548	DOD
Alabama	2	843	DOD
Arizona	9	2,120	USDA,DOD
California	13	5,700	USDA,DOD,USDA,NASA,VA
Colorado	1	5	GSA
District of Columbia	5	2,584	USDA,DE,VA
Florida	6	2,462	USDA,DOD,DOT,VA
Georgia	11	5,671	DOD,GSA,VA
Idaho	3	1,360	DE,DE,GSA
Illinois	2	10,278	USDA,VA
Kansas	4	4,418	DOD,GSA,VA
Louisiana	3	1,192	USDA,DOD,VA
Maryland	3	224	VA
Massachusetts	1	88	DOT
Michigan	2	677	DOD,DOT
Minnesota	1	28	DOD
Mississippi	1	53	VA
Nevada	1	658	VA
New Jersey	1	287	DI
New Mexico	2	238	DOD
New York	2	664	DOT,VA
North Carolina	2	212	VA
North Dakota	2	1,817	USDA,DOD
Ohio	2	2,387	DOD,VA
Oklahoma	1	353	DOD
Oregon	8	897	USDA,DI
South Carolina	2	431	DOT,VA
Tennessee	1	2,846	USDA
Texas	7	5,254	DOD,DOL,DOT,VA
Utah	4	3,168	DOD,DI,GSA
Virginia	5	746	DOD,DOT,NASA
Washington	3	491	USDA,DOD,DI
Wisconsin	1	769	VA
TOTAL	113	\$59,469	

The three agencies with the largest dollar volume of FY 2000 HUBZone contracts – Defense, Agriculture, and the Veterans Administration – had contract activity in a large number of states, which suggests these agencies have had some success in implementing HUBZones at an agency-wide level.

Table 4.6 lists HUBZone contracts by size.² Not surprisingly, it appears that most of these HUBZone awards were small, with 94 percent worth less than \$1 million.

Table 4.6: FY 2000 HUBZone contract awards by size

<u>Size of initial contract</u>	<u>No. of SBCs receiving Contracts of this size</u>	<u>Total dollar value of awards (\$000)</u>
\$24,000 or less	8	97
\$25-49,000	12	453
\$50-99,000	9	623
\$100-199,000	19	2,719
\$200-299,000	16	3,960
\$300-499,000	12	4,354
\$500-999,000	13	9,436
<u>\$1,000,000 or more</u>	<u>6</u>	<u>12,162</u>
TOTAL	95	\$33,804

Characteristics of SBCs obtaining HUBZone contracts in FY 2000

The following are comparisons of SBCs that won HUBZone contracts in FY 2000 with characteristics of the aggregate population of HUBZone-certified SBCs. Table 4.7 compares the length of time in business for HUBZone contract winners in FY 2000 with the population of HUBZone certified SBCs as a whole. The more established/mature SBCs, those founded from 1980-1995 received a disproportionately large share of HUBZone contracts.

Table 4.7: Founding year for SBCs obtaining HUBZone contracts in FY 2000

<u>Year founded</u>	<u>Number of SBCs Obtaining HUBZone Contracts in FY 00</u>	<u>(%)</u>	<u>Overall population of HUBZone-certified SBCs as of Sept. 27, 2000</u>	<u>(%)</u>
Prior to 1980	7	8.1	226	15.6
1980-89	29	33.7	361	25.0
1990-95	25	29.1	393	27.2
1996-98	18	20.9	290	20.1
1999-2000	7	8.1	176	12.2
TOTAL	86	100	1,446	100.0

² Table 4.6 lists only 95 contracts because the dollars awarded under contracts and those awarded as modifications were combined.

Table 4.8 examines the distribution of FY 2000 HUBZone contract recipients by the amount of annual gross revenue reported by the SBCs. The data indicates that on average, the SBCs winning HUBZone contracts in FY 2000 had substantially larger revenues than the overall population of HUBZone certified SBCs. Not surprisingly, the larger SBCs were more successful at obtaining HUBZone contracts.

Table 4.8: Annual gross revenue for SBCs with FY 2000 HUBZone contracts

<u>Avg. annual gross revenue</u>	<u>Number of HUBZone Certified SBCs obtaining HUBZone contracts in FY 00</u>	<u>Cumulative Percentage</u>
\$0-\$149,999	9	10.5
\$150,000-\$249,999	4	14.0
\$250,000-\$399,999	5	17.4
\$400,000-\$599,999	2	22.1
\$750,000-\$999,999	4	27.9
\$1,000,000-\$1,499,999	8	37.2
\$1,500,000-\$2,499,999	5	39.5
\$2,500,000-\$3,999,999	13	46.5
\$4,000,000-\$7,499,999	22	68.6
\$7,500,000-\$14,999,999	9	88.4
\$15,000,000-\$25,000,000	5	100
More than \$25,000,000	-	-
TOTAL	86	100%

As previously noted, approximately 43 percent of HUBZone-certified SBCs are minority-owned. However, in FY 2000 minority-owned HUBZone certified SBCs received about 73 percent of the HUBZone awards made because of a HUBZone preference. Table 4.9 shows the contracts awarded in FY 2000 by state and minority-ownership.

Table 4.9: SBCs with FY 2000 HUBZone contracts by state and minority ownership

<u>State</u>	<u>All HUBZone contracts</u>	<u>Contracts to Minority SBCs</u>	<u>State or Territory</u>	<u>All HUBZone Contracts</u>	<u>Contracts to minority SBCs</u>
Alaska	3	2	Mississippi	1	1
Alabama	2	1	New Jersey	1	1
Arizona	4	4	North Dakota	1	1
California	10	6	New Mexico	2	2
Colorado	1	1	Nevada	1	1
DC	4	4	New York	2	2
Florida	6	3	Ohio	2	2
Georgia	7	5	Oklahoma	1	1
Idaho	2	0	Oregon	7	2
Illinois	2	1	Pennsylvania	1	1
Kansas	1	1	South Carolina	2	0
Kentucky	1	1	Tennessee	1	1
Louisiana	1	1	Texas	6	6
Massachusetts	1	1	Utah	2	2
Maryland	3	3	Virginia	4	3
Michigan	2	1	Washington	2	1
Minnesota	1	1	West Indies	1	1
			TOTAL	88	64

V. SBA Implementation of the HUBZone program

The special challenges to HUBZone program implementation

Implementing the HUBZone program successfully required that three challenges be met:

- ? First, the HUBZone program is a *national* program whose success depends largely on local decisions. The HUBZone national program office had to provide program information, training, and outreach, not only to SBA field office employees, but also to local Federal procurement officials and activities. Simultaneously, the HUBZone program staff also had to inform, educate, recruit and enroll businesses into the HUBZone program.
- ? Second, the HUBZone program had to overcome the misconception that it would compete with other procurement preference programs, especially the SBA's 8(a) Business Development Program.
- ? Third, HUBZone areas are, by definition, areas where *the economy is stagnant*, with high unemployment and/or low income. Designated HUBZone areas typically have very low numbers of firms, compared with non-HUBZone areas. Also, firms that are located in HUBZones are more likely to have a low number of employees.³ Hence, special efforts are needed to identify and attract firms that might successfully participate in the HUBZone program.

Development of a HUBZone program administrative approach

The lean administrative structure and the special challenges facing the HUBZone program required the development of innovative methods for program administration and the extensive use of resource leveraging. As was mentioned previously, the HUBZone program continues to implement information technology systems to automate program administration. The HUBZone program has sought to leverage its outreach through the establishment of three-way, interconnecting relationships in local procurement economies. These local procurement "triads" consist of:

- ? Federal procurement officers who are aware of the requirements and potential of the HUBZone program.
- ? Local economic development resources, including SBA field office staff, local chambers of commerce, local economic development entities, SBA-backed Small Business Development Centers (SBDCs), Department of Defense (DOD)-backed Procurement Technical Assistance Centers (PTACs) and other interested third parties; and

³ This information was obtained through a 1999-2000 study done at the Center for Economic Studies of the Census Bureau by Indus Corporation.

? HUBZone-certified small businesses.

Through this strategy the HUBZone program has overcome a significant supply/demand paradox that was restricting both the number of firms entering the program and the number of contracts awarded under the HUBZone program. The willingness of firms to seek HUBZone certification was dependent on the number of contract opportunities available for HUBZone firms. However, as noted on page 7 of report GAO-02-57, contracting officials have repeatedly indicated that their willingness to use the HUBZone program is dependent on the number of firms in the program.

To establish these local triads, the HUBZone program adopted many of the operational concepts espoused in Office of Management and Budget (OMB) publication “*The President’s Management Agenda, FY 2002*” (S/N 041-001-00568-4). First, the office embraced the concept of leverage – using a small equity base to support a much larger asset structure. Second, it developed an integrated computer-based information system to manage and implement the program. Finally, the HUBZone office undertook outreach efforts resembling a private-sector sales campaign to inform and educate the marketplace about the program. As these triads begin to coalesce, they are expected to yield a momentum of interest in the program.

The HUBZone program’s efforts to implement private-sector like management principles to maximize the potential of the HUBZone program have resulted in:

- ? Successful establishment of a web-based program application and certification process;
- ? Immediate distribution of program information to SBA personnel in local and regional offices;
- ? A comprehensive effort to inform and train Federal procurement officers about the HUBZone program; and
- ? Inclusion of local economic development entities which, along with SBA support, have provided direct outreach to recruit small businesses into the program.

Innovative methods of enrolling businesses and generating contracts

To build the number of HUBZone-certified firms, the HUBZone program has used innovative techniques, including an on-line application and on-site certification with real-time application processing in a number of local areas.

On-line applications. The HUBZone program’s on-line electronic application is not only convenient for users, but also allows the HUBZone staff to quickly and efficiently serve potential HUBZone firms regardless of their location. The on-line application process has built-in features to support:

- ? Faster processing of program applications through the use of automated decision logic;
- ? Enhanced productivity of SBA staff by enabling a small, centrally located workforce to service applicants of a national program regardless of location;
- ? The automatic and instantaneous population of the HUBZone program's participant database via electronic transmittal, which facilitates access to firm data for improved program management and administration; and
- ? The future migration of other HUBZone administrative processes, such as program examinations and re-certifications, to an electronic platform that will result in even higher levels of productivity from the program's small staff.

Applicants seeking to determine whether they are eligible for the program are able to access real time, detailed geo-spatial maps of the entire United States, which clearly identify every HUBZone-certified area. Additionally, the application software and mapping software have been linked so applicants can use an on-line 'query' procedure to automatically determine whether their firm qualifies for the program based on location.

While the HUBZone program relies heavily on information technology and automated decision logic to process applications, all applications are reviewed by HUBZone personnel before a certification decision is made.

All HUBZone-certified firms are registered in the SBA's *PRO-Net* database as part of the HUBZone application process. The *PRO-Net* system is the SBA's primary database maintained to encourage Federal contracting with small business. The system is a primary resource used by Federal procurement officers to access potential small business suppliers and is considered by many in the procurement community as the first source of data for conducting market research associated with Federal procurement from the small business community. It contains a comprehensive list of firms interested in selling to the Federal government, including information about products, services, previous experience, size, location, and a special entry (activated only by SBA) that conveys status with regard to HUBZone, 8(a) and SDB programs.

On-site certification with real-time application processing. The HUBZone staff has conducted numerous seminars across the Nation to provide firms with training and direct assistance with the application process. These hands-on events, with one-on-one attention by SBA officials, combined with real-time application review, provide potential applicants a "fast track" approach to HUBZone certification. Because of the structure of these events (on-site instruction and screening), virtually 100 percent of the firms that submit an application receive HUBZone certification.

"Fast track" training and application assistance sessions are cooperative events with technical programmatic support provided by the HUBZone office and logistical support provided by local SBA field offices and/or resource partners. The first event was conducted in June 2001 in El Paso, Texas and resulted in the certification of 19 firms.

This approach is unique to the Federal system because, through the efficiencies brought about by electronic communication, an applicant can, usually in the same day:

- ? Secure one-on-one assistance in learning about the HUBZone program,
- ? Get personalized help in filling out the Internet-based application, and
- ? Most importantly, walk away knowing if firm has been certified.

It is advantageous to the HUBZone staff to participate in these events since it provides immediate feedback on their customers' concerns and questions, as well as interests and needs. Additionally, applications collected during these events are generally complete and require little or no follow-up, saving time and increasing application processing efficiency. The sessions have not only been successful for recruiting qualified applicants, but also have helped build public interest for the HUBZone program at the local level.

Training efforts for procurement officers, businesses and local officials

The HUBZone staff focused outreach efforts not only on recruiting program participants, but also on training procurement officials. The training sessions were a fundamental component of the program's implementation. Each contracting officer attending a training session earned 8 hours of Department of Defense (DOD) sanctioned "continuing education units." Table 5.1 lists the dates, location and number of pre-registrants for nearly all (Cleveland and New York City are exceptions) training sessions held in FY 01, with overall attendance totaling more than 1,000 factoring in the walk-in attendees.

**Table 5.1: Locations and dates of HUBZone training
Sessions for Federal procurement personnel, 2000-01**

Session number	City	No. of trainees	Training Dates
1	Los Angeles, California	49	October 19-20 2000
2	Las Vegas, Nevada	51	November 28-29, 2000
3	Memphis, Tennessee	35	December 5-6, 2000
4	Silver Spring, Maryland	58	December 13-14, 2000
5	San Antonio, Texas	47	January 25-26, 2001
6	New Orleans, Louisiana	60	February 6-7, 2001
7	Atlanta, Georgia	67	February 21, 2001
8	Raleigh, North Carolina	43	March 21, 2001
9	San Juan, Puerto Rico	21	March 29, 2001
10	Cleveland, Ohio	--	April 3, 2001
11	Chicago, Illinois	84	April 10, 2001
12	Kansas City, Missouri	44	April 12, 2001
13	Washington, DC	55	April 14, 2001
14	Denver, Colorado	39	May 23, 2001
15	Boston, Massachusetts	31	July 24, 2001
16	San Francisco, California	77	July 24, 2001
17	Helena, Montana	16	July 27, 2001
18	Dallas/Fort Worth, Texas	55	July 31, 2001
19	New York, New York	--	August 22, 2001
20	Philadelphia, Pennsylvania	14	September 19, 2001
TOTAL TRAINEES		834	

Table 5.2 presents participation by Federal agency, when an agency was identified on sign-in sheet. The General Services Administration sent the largest number to these sessions overall, 142. The Environmental Protection Agency and the Department of Agriculture were next, with 77 and 72 attendees, respectively. Figure 5.2 also shows that 89 percent of all registrants trained in these sessions were employees of Federal agencies.

**Table 5.2: Federal agency participation
in HUBZone training sessions, 2000-01**

<u>Federal Agencies</u>	HUBZone training sessions:	
	<u>Sessions attended</u>	<u>Total attendees</u>
Department of Agriculture	13	72
Department of Commerce	3	68
Department of Defense	17	64
Department of Energy	8	44
Department of Health and Human Services	5	10
Department of Housing and Urban Development	6	30
Department of Justice	17	17
Department of Labor	2	3
Department of the Interior	8	48
Department of Transportation	7	16
Department of Veterans Affairs	5	20
Environmental Protection Agency	10	77
General Accounting Office	1	3
General Services Administration	14	142
National Air and Space Administration	3	10
Small Business Administration	14	43
Social Security Administration	4	13
Other	15	82
TOTAL	152	762

In addition, to the training sessions discussed above, the HUBZone program also developed, produced, and distributed a fully interactive training Compact Disk (CD). The CD, produced at the end of FY 2001, included an audio-visual presentation of the HUBZone program's history, statutory authority, congressional goals, agency obligations, Federal Acquisition Regulation references, contract clauses, frequently asked questions and detailed links to additional information available on the Internet. Over 24,000 copies of the CD were distributed to contracting professionals in January of 2002 via *Contract Management* magazine. In addition to the CD, the magazine included a six-page feature article describing the evolution, purpose and requirements of the HUBZone program.

VI. Impact of the HUBZone program

The Impact Process

Given the HUBZone program's core purpose of economic development and its eligibility structure, it can over time prove to be an effective tool to create jobs and increase capital investment in distressed areas.

The value that a firm places on HUBZone certification and the program's potential can be measured through the experience of GTI Technology Consultants of Frederick, Maryland. According to the firm's president, Mark Gaver, GTI Technology Consultants became aware of the HUBZone program in January 2001 and by March 1, 2001, had begun the process of securing certification.

The firm moved their corporate office to a HUBZone area in Frederick, Maryland, building out nearly 5,000 square feet of previously unoccupied space in an old bakery. GTI hired and trained a number of HUBZone residents to provide Call Center/Help Desk Services for a local Internet Service Provider. GTI supplied these HUBZone residents with training that lasts 60 days (320 work hours) and provides employees with a solid basis for understanding technology and how it will apply to their new jobs.

The typical individual hired from the HUBZone was a single mother who had never worked in a professional office environment. GTI hired and trained 18 people to meet the program requirement that 35 percent of the firm's employees reside in a HUBZone. According to Mr. Gaver, the total investment made through December 31, 2001, by GTI in their new Frederick, Maryland location was \$187,594, a site that allowed the company to pursue HUBZone certification.

Although GTI has received no HUBZone contracts to date, 18 people in Frederick, Maryland, have a job and have acquired new work skills as a direct result of the company's interest in securing HUBZone certification. The company anticipates that, when conditions are right and a HUBZone contract comes up in their industrial sector, they are well positioned to compete. GTI also reports their new location has proved beneficial in terms of finding and developing quality employees.

Therefore, the mere existence of the HUBZone program stimulates some degree of job opportunity that in nearly all cases leads to an improved economic environment within a distressed community. However, the real measure of success for the HUBZone program will be its long-term impact on investment and employment in the nation's more than 9,000 HUBZone areas. Among the performance indicators in this circumstance include the number and dollar value of Federal contracts awarded to certified firms through the HUBZone program.

To achieve impact in the long-term, the implementation of the HUBZone program has had to follow a linear track as in:

- ? First, the HUBZone program had to establish an adequately sized pool of well-qualified HUBZone certified firms capable of providing products and services needed by the Federal Government.
- ? Second, the Federal contracting community had to recognize and make awards to HUBZone certified firms.
- ? Finally, as the HUBZone firms that have received Federal contracts begin work to fulfill these contracts, an economic impact will be realized.

Success in the first stage (*establishing an eligible pool of firms*) is required before success in the second stage (*award of HUBZone contract awards*) can be achieved. Success in stage two, in turn, is necessary before a sustained and meaningful local economic impact via investment and expenditure multiplier process can be realized. This process builds cumulatively in that as more HUBZone-certified firms are registered, more HUBZone contracts can be awarded. As more contracts are awarded, more investment and job opportunities in HUBZone areas will surface.

The passage of time and the scale of impact also affect the size and depth of the ‘multiplier effects.’ Economic multipliers, including those associated with Federal procurement, operate when the money expended on goods or services in a specific community is re-spent within that community. This happens when the recipients of the money (the businesses) and their employees make purchases (via income and wages) within the community. This is a cascading process, so the larger the initial infusion of money and the more time that passes, the greater the overall multiplier effect.

Where is the HUBZone program in this three-stage impact process today? ⁴ It has entered stage two of the implementation process. The HUBZone program has successfully established a significant pool of certified firms. While these firms are beginning to receive HUBZone contracts, Federal agencies have yet to award contracts to HUBZone firms at the levels intended by the law that created the initiative, as noted in the Oct. 2001 report GAO-02-57.

Section IV of this report to Congress presents data on stage one of the impact process -- the number and characteristics of HUBZone-certified firms. The HUBZone program has been successful in establishing a significant base of certified firms through an efficient streamlined electronic process, achieving participation levels in three years that took about 25 years through similar paper-based Federal certification processes.

Assessment of initial HUBZone impact via FY 2000 contract awards

The flow of contracts to HUBZone certified firms (stage two of the impact process) has been significantly below the statutorily mandated goals, as noted in GAO-02-57. The statutory goal intended that approximately \$3 billion in HUBZone contracts to be awarded in FY 2000. The official analysis of FY 2000 HUBZone contracting data

⁴ Data on HUBZone-certified firms and HUBZone contracts are factual in nature; numerical results for impact multipliers, by contrast, are based on methods that can be contentious and on data that can be extremely dated. A method of estimating investment and employment multipliers for the HUBZone program is described in Appendix B.

reported by the FPDC indicates that \$663 million in Federal contracts were awarded to HUBZone firms during FY 2000. That data, as noted in GAO-02-57, cannot be viewed as accurate. The SBA's internal analysis of the reported government-wide procurement data, however, puts the amount at \$520 million. (This was accomplished by creating appropriate data filters suitable for identifying HUBZone certified firms with individual procurements.) This means that Federal agencies, at best, awarded HUBZone contacts at one-sixth the rate mandated by Congress.

Impact of FARA and FASA on the HUBZone program

As detailed extensively in the previously mentioned GAO report (GAO-02-57), Federal agencies are "having difficulty implementing the HUBZone program" and did not meet the FY 2000 statutory goals for awarding prime contracts to HUBZone SBCs. In addition, the HUBZone Program was taking legislative form in a time period when the entire Federal procurement landscape was moving through transition. As a result, the program, in some cases, is premised on procurement circumstances that were more widely used prior to the acquisition reforms reflected by the Federal Acquisition Reform Act (FARA) and the Federal Acquisition Streamlining Act (FASA). This pre-FASA, pre-FARA era was when Federal agencies tended to award more individual new contracts and purchase-orders to obtain goods and services.

Today, the use of streamlined contracting tools like multiple award contracts, government-wide acquisition contracts (GWACs), Federal supply schedules and credit cards have increased, with many small business advocates saying that these new processes work to the detriment of small firms. The process has been simplified, say advocates, but many small business protections have been weakened, eliminated or re-aligned, which permits some contracting officers to circumvent processes like the HUBZone initiative.

Yet, say these same small business advocates, small firms offer unequaled advantages to the U.S. economy by generating competition, lowering overall costs, creating innovations, and providing more jobs than any other sector. Small businesses continue to deliver these benefits in spite of the fact that:

1. Large firms consistently receive the largest portion of the estimated \$200 billion in annual Government contracts;
2. Large firms represent less than 5 percent of all businesses, yet receive a disproportionate 78 percent of all Federal prime procurement dollars;
3. Small firms annually receive about 22 percent of all Federal prime contract dollars; and
4. Small businesses receive a minority interest – approximately 40 percent of all Federal subcontracting dollars.

Although procurement reform streamlined the procurement process, the overall environment is more challenging for the small business owner. For example, FASA -- enacted in 1994 -- allows contracting agencies to establish multiple award contracts that, in effect, create pre-approved lists of bidders for large acquisition needs. These

procurements often preclude small businesses because of the size and scope of their requirements. FASA also eliminated the requirement for agencies to use small businesses for micro-purchases under \$2,500. This significantly expanded the use of the Government purchase card.

In addition, Federal agency staffs have been downsized over the last decade, particularly acquisition personnel. Both downsizing and procurement reform have resulted in contracting officers having less resources and incentives to make procurement opportunities available to small businesses.

Acquisition Vehicles - Procurement reform has ushered numerous new and/or modified acquisition vehicles – multiple award contracts -- such as multi-agency contracts and GWACs. These vehicles typically consolidate requirements and result in long-term arrangements with fewer and larger vendors.

The use of these contract vehicles, including expansion of GSA schedules, has increased significantly during the last few years. These popular vehicles allow Government buyers to quickly fill requirements by issuing orders against existing contracts or schedules without starting a new procurement action from scratch. Further, agencies can competitively award several or multiple task order contracts to different firms for the same products and services. This practice allows Federal buyers to issue orders to any one or a combination of several firms with relative ease.

While the increased use of multiple award contracts, GWACs, or schedules greatly streamlines acquisition times and workloads, awards made under these vehicles tend to limit small business contracting requirements.

Contract Bundling – “Bundling” is the consolidation of requirements previously provided under separate smaller contracts (oftentimes suitable for award to small business) into a single contract that is typically unsuitable for award to small businesses. When a contract is bundled, small business procurement opportunities are often reduced.

Micro-economic Impact of the HUBZone Program

The relative newness of the HUBZone program and the lack of significant HUBZone contracts means that macro-economic and local multiplier effects (Stage three of the impact process) are not yet quantifiably measurable. However, a strategy for examining program impacts was devised by shifting from a quantitative “macro” approach to a qualitative “micro” approach. That is, rather than assessing program impact on the basis of publicly available economic statistics, an effort was made to contact those firms that are known to have won HUBZone contracts, to determine their “micro” experiences with the program.

As discussed, reporting problems have made it impossible to determine with accuracy the number and value of HUBZone contracts in FY 2000. However, the HUBZone program staff was able to identify 95 firms that received HUBZone contracts in FY 2000.

While not at the request or direction of the SBA, these companies were contacted by an SBA consultant in September and October 2001, and invited to provide information about the impact of the HUBZone program and other Federal procurement programs on their employment and investment activity. Of the 89 SBCs that were contacted, 45 responded to the contractor's invitation to assess the program's preliminary effects.

Table 6.1 provides base-line revenue-growth and employment information for the 45 respondent firms. Mean gross revenue grew for the 43 responding firms, averaging 9.7 percent annually from 1998 to 2000, and an estimated 58.1 percent in 2001. While the overall figures give a picture of robust growth, the firm-by-firm data indicate substantial variations in revenue. Of the 43 firms that provided revenue data, only 16 report consistent revenue growth in the 1998-2001 time period. Fifteen of those firms had negative revenue growth in one year, and another 9 had two or more years of revenue decline. As unstable or erratic revenue and growth rates are not particularly uncommon for small businesses, that aspect of the data for HUBZone firms is not surprising.

Table 6.1: Firm revenue and employment data, 1998-2001
Firms with FY 2000 HUBZone contracts

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001 (est.)</u>	Avg. annual growth rate:	
					<u>1998-2000</u>	<u>2000-2001 (est.)</u>
1. Firm Gross Revenues (in \$000)						
No. firms responding	37	41	43	36		
Mean	3,422	3,646	4,114	6,502	9.7%	58.1%
2. Firm Employees						
No. firms responding	39	42	44	41		
Mean	43.7	45.1	46.7	47.5	3.4%	1.7%

NOTE: Three firms did not provide estimated data for 2001; for these firms, 2000 figures were used in generating estimated data for 2001.

Respondent firms also provided information on their employees during the 1998-2001 period. During the 1998-2001 time frame, the mean number of employees for these firms was unchanged, but did trend upward each year from 44 to 47.

Were these firms able to hire more employees due to the receipt of one or more HUBZone contracts? Some 38 firms responded; indicating that they had won a total of 149 contracts under the HUBZone program, for an average of 3.9 contracts (including contract modifications). The majority – 27 firms – indicated that they created jobs because they received HUBZone contracts. Of these 27 firms, 18 indicated how many employees they had hired because of their HUBZone contracts – specifically, 315 full-

time and 78 part-time employees. These 18 firms recorded a total of 1,178 employees in the year 2000, suggesting that HUBZone contracts increased employment by up to half.⁵

In addition to having a positive impact on employment, 47.6 percent of the firms reported that they made some capital investment in their plant and equipment or otherwise expanded their capital base due to the receipt of one or more HUBZone contracts⁶. While this informal analysis is not statistically projectable, it appears that at least on the micro-economic level, the award of HUBZone contracts can have a significant impact on the decision to increase capital investment.

As the discussion above suggests, the micro-economic impact of HUBZone contract awards appears to be very promising.

Case Studies

Because of a lack of quantitative data, the SBA has used qualitative techniques to measure the impact of the HUBZone program. The HUBZone program reviewed several examples of how the program is being used, what impact it has had and what problems are being encountered in different markets across the Nation. The cases that follow illustrate some of the program's successes and some of the challenges it faces in meeting its statutory goal to increase investment and create jobs in distressed communities. Eight case studies were assembled by academicians (and others) working with the project consultant in the summer and fall of 2001; the researchers involved took different approaches to highlight different aspects of local HUBZone operations:

- ? **Washington, DC**—a survey of HUBZone-certified firms, along with focus-group discussions and an analysis of local economic-development initiatives;
- ? **Philadelphia, PA**—an overview of SBA regional office strategies for using local small-business incubators and available SBA instruments to nurture new business development;
- ? **San Antonio and El Paso, TX**—extensive meetings with SBA personnel, small businesses, local groups involved in community economic development;
- ? **Kansas City, MO**—an analysis of the SBA's support mechanisms for small-business development, combined with an analysis of potential HUBZone-certified businesses in lower-income areas and an experimental assessment of procurement options;
- ? **Native American reservations in New Mexico, North Dakota, and Montana**—extensive interviews with HUBZone-certified firms, procurement officers, and SBA officials;

⁵ If the 393 new employees (315 full-time plus 78 part-time) were all hired *after* the year 2000, then the base-year employment of 1,178 was augmented by 393; and 393/1,178, expressed as a percentage, equals 33.4 percent. If all of the 393 new employees were hired *during* the year 2000, then HUBZone-related hiring would account for 393 of the 1,178 employees for the year 2000. In this case, in the absence of HUBZone contracts, these firms would have had 785 employees (the difference between 1,178 and 393); and the additional 393 employees would represent a 50 percent increase (393/785, expressed as a percentage) in employment.

⁶ Firms were not asked to identify the specific dollar amount of this increase.

- ? **Rural Oregon**—interviews with SBA officials, local firms, and a local economic development organization; and
- ? **Fresno, CA**—interviews with local HUBZone-certified firms and SBA officials.

A detailed report of each case study appears in Appendix A; each case profiles the local small business community, reviews Federal procurement in the area, discusses the population of local HUBZone-certified firms, and then analyzes various aspects of HUBZone program implementation in that community.

The case studies produced two key findings relevant to the HUBZone program as a whole:

- ? **In all HUBZone areas, local businesses and Federal contracting officers recognize the potential of the HUBZone program. However, efforts to increase firm participation must be continued and Federal agencies must begin to award more Federal contracts if the program is to attain its goals of job creation and economic development.**
- ? **The successful implementation of the HUBZone program requires the close interaction of local businesses and Federal contracting activities supported by the local economic development structures that exist in those communities.**

Since business opportunities and small businesses vary significantly from one phase to another, effective methods for implementing the HUBZone program also vary by location. At the same time, there are some noteworthy examples of strategies being used to develop the HUBZone program in local communities.

- ? **The use of local intermediaries to promote and publicize the availability and use of the HUBZone program.**

The HUBZone program's success depends on the development of *virtuous circles* comprised of HUBZone firms, Federal procurement officers, and local economic development entities. A key to launching a virtuous circle is a successful publicity and outreach effort. Publicity and outreach can be conducted in a variety of ways.

- ? **The Greater Washington Board of Trade.** In the District of Columbia, the Board of Trade's broad mission is to link businesses with Federal and local Government economic development initiatives, including increasing procurement by businesses in less developed communities. To meet this objective, the Board created the Community Business Partnership in 1996 as a vehicle for strategic partnerships with local community development corporations (CDCs), Small Business Development Centers (SBDCs), and area universities. In 1999, this relationship was formalized and became a three-way corporate, community, Federal coalition that among other goals helps small firms obtain contracts. This relationship has provided a mechanism for the SBA, Department of Defense, SBDCs, and local universities to work together to connect HUBZone certified

firms with Federal contract opportunities. The Board and Government programs, including the HUBZone program, have co-sponsored conferences, workshops and outreach sessions in various District locations.

- ? **The El Paso HUBZone Development Center of Excellence.** The El Paso Hispanic Chamber of Commerce formed a HUBZone marketing team. Working closely with the SBA and area business leaders, the team developed into the HUBZone Development Center of Excellence. This strategic partnership with the U. S. Space and Missile Defense Command, Fort Bliss military officials, University of Texas, El Paso, small business owners, area business service providers, representatives from financial institutions, and other interested community members provides tailored programs and services to area businesses seeking HUBZone certification and contracts.
- ? **The pro-active efforts of Federal contracting activities and large Federal prime contractors have successfully facilitated the recruitment of HUBZone firms and subsequent award of HUBZone contracts.**

Nothing speaks to businesses quite as loudly as the opportunity to win customers. Despite efforts focused on finding new work, many small businesses are not aware of the HUBZone program, the benefits of the program, or their possible eligibility to participate. Conversely, where Government contracting officers and large prime contractors have used the HUBZone program effectively and communicated its use, more qualified small businesses soon sought certification to take advantage of associated opportunities.

- ? **HUBZone contracting on the Fort Berthold Reservation, North Dakota.** Procurement officers at the Minot and Grand Forks Air Force Bases, committed to providing contracting opportunities for small North Dakota businesses, have helped tribal firms build up their participation in the HUBZone program. These contracting officers have worked diligently to educate themselves about the HUBZone program and to develop working relationships with SBA staff and local small businesses. These efforts have led to the certification of firms into the HUBZone program that otherwise might not have sought certification, and award of contracts in communities that without the program would not have benefited from contract opportunities.
- ? **HUBZone sub-contracts in California.** To facilitate HUBZone-related subcontractor business, a large prime contractor in California compiled a list of the small businesses with which it had recently done business. The level of activity varied. The business addresses were matched against the qualified counties and qualified census tracts using the HUBZone website. Thirty-five companies were identified as

being located in qualified HUBZone areas. These firms were invited to the large prime's offices, where additional research showed that two had all the qualifications for HUBZone status. These two newly HUBZone certified SBCs now receive special consideration and additional subcontracting opportunities offered by the large prime specifically as a result of their HUBZone status.

? **HUBZone contracting can be an effective tool for sustainable community economic development.**

Sustainable development emerges when communities autonomously develop resources that can drive human, business, and natural growth into the future.

- ? **Sustainable Northwest (SN), a non-government economic development organization in Lake County, Oregon.** This organization promotes both economic development and resource conservation in the United States' northwestern areas. The organization's strategy is to work with "rural communities and businesses on economically viable and environmentally sustainable initiatives that strengthen their self-reliance, long-term viability and commitment to people and place" and to "promote leadership, innovation and understanding to support and advance local sustainability efforts." SN has recognized that the HUBZone program provides a vehicle for achieving sustainable local development. To help position local firms to take advantage of Federal contracting opportunities, they have made training for HUBZone certified contractors a top priority. SN has hired a former Forest Service contracting officer to assist local firms in obtaining HUBZone certification and the contract opportunities consistent with that status.

VII. Findings & Recommendations

Findings

Since 1999, the SBA has aggressively moved the HUBZone program toward becoming a successful economic development program for distressed urban, rural and Native American communities. A working administrative framework for the program has been established and is steadily being improved. A significant number of firms are certified. The SBA has undertaken important outreach efforts to the public and private sectors. The acquisition community appears to be using the program with increasing frequency.

Overall, initial implementation and operation of the HUBZone program has been extremely successful in leveraging Federal dollars for economic development. During FY 2000, the program operated with a \$2 million budget, while in this same time period Federal contracts to economically distressed communities using HUBZone specific methodologies totaled \$59.5 million.⁷ As with many government programs, it is difficult to ascertain any direct cost/benefit relationship. There is, however, an ability to determine that there has been some measure of return on the investment, although the degree is difficult to determine with scant data.

But there were additional returns on this investment. Firms winning HUBZone procurement in FY 2000 reported that they increased employment 33 percent to 50 percent as a result of these contracts. Further, nearly half the firms winning HUBZone contracts in FY 2000 claimed to have increased capital expenditures as a result of receiving these contracts. These initial results seem to indicate that the HUBZone program has great potential for encouraging entrepreneurial resurgence and economic rebirth in economically distressed areas of the United States.

As indicated in the General Accounting Office's (GAO) report on the HUBZone program (GAO-02-57, October 2001), there are no deficiencies in the administration of the HUBZone initiative. According to the GAO, the two most significant issues facing the HUBZone program are the lack of Federal contracts being set-aside for the HUBZone program and the inability to secure reliable contract data from the Federal Procurement Data Center. Earlier this year the SBA and the Office of Federal Procurement Policy advised the Senate and House of actions that would be taken to resolve these issues (*see Section IV*). The SBA has developed guidance identifying how contracts that meet the HUBZone criteria should be reported to the FPDS. We also plan to notify firms in the SBA's PRO-Net database about the importance of keeping their profiles specific, accurate and current.

SBA has addressed the number of HUBZone certified firms, contracting officer awareness of the HUBZone program, and the ability of contracting officers to locate HUBZone certified firms.

⁷This contract figure reflects only the verified HUBZone contracts for FY 2000; see section IV.

SBA's outreach efforts have doubled the number of HUBZone certified firms every year since the program's inception.

Through a combination of traditional classroom-style presentation in FY 2001 and a state-of-the-art audio-video compact disk in FY 2002, the SBA has made HUBZone contract training available to more than 25,000 procurement professionals. The SBA's enhancements to its web site and innovative use of information technology have provided search tools and database access to any contracting professional, HUBZone firm, or interested party seeking HUBZone companies or HUBZone contract opportunities.

Recommendations

- ? The HUBZone program has made rapid progress in building the pool of program-eligible businesses. This rapid growth in the pool of HUBZone-certified firms is necessary to facilitate the growth of HUBZone contracting. *While continuing to recruit and certify new firms, the HUBZone program must now focus on managing the pool of certified firms.*
- ? The HUBZone program has conducted a concerted outreach and training effort to market the program to Federal procurement officers and small businesses. *The HUBZone program must find innovative ways to use technology to sustain its outreach and training efforts to the public.*
- ? The HUBZone program has implemented a web-based information technology intensive system for administering the HUBZone program. The system, in its current form, is heavily skewed to providing "front-end" assistance and information to the program's customers (small businesses and Federal procurement officials). *Attention and resources must now be dedicated to the next phase of administration, which is providing follow-on services electronically,(e.g., electronic re-certification, electronic notification to the acquisition community of material changes, etc.)*
- ? The HUBZone program has addressed the reasons most often given by contracting officials for not using the HUBZone program to fill their requirements. *The SBA must now work closely with Federal agencies to develop acquisition strategies that will increase their use of certified HUBZone SBCs.*

Appendix A

Case Studies of HUBZone Implementation in Selected Areas: Successes and Challenges

It is not possible at this stage of the HUBZone program's development to definitively measure the influence of HUBZone contracts on employment and investment in lower-income, high-unemployment communities as a whole—what was termed 'stage three' impacts in Section VI. As noted, the relatively small scale of program dollar flows and the lags involved in community multiplier processes do not yet make it possible to measure direct and indirect employment and investment impacts of the HUBZone program.

This appendix reports on several case studies of HUBZone operations "on the ground" in different localities across the Nation. These cases illustrate some of the HUBZone program's successes and some of the challenges it faces in meeting its statutory mandate. Because local circumstances differ, responses to these challenges also differ substantially from place to place.

Each case study begins with a profile of small businesses, reviews Federal procurement in these areas, discusses the population of local HUBZone certified firms, and then analyzes various aspects of the implementation of the HUBZone program.

Washington DC case study⁸

Small Business Profile. Small businesses account for about 94 percent of the 25,990 businesses in Washington, DC, and employ about 48 percent of the District's private sector non-farm employees (1999 data).⁹ The total number of businesses grew 11.3 percent from 1997 to 1999 in Washington, DC; and according to a SBA study, *small businesses* accounted for all net new jobs in the District between 1992 and 1996.¹⁰ The largest number of jobs in the small-business sector was created in the services sector (70 percent), followed by the retail and manufacturing sectors (10 percent and 3 percent respectively). Approximately 59 percent of all firms are minority owned. The business participation rate -- that is, the number of business owners for every 1000 persons of a particular minority/ethnicity group -- is 203 for the District's non-minority population and just 40 for its minority population (1997 data).

⁸ This case study was prepared during the period September-October 2001 by Rodney Green, Professor of Economics, Howard University, and Director, Howard University Center for Urban Progress, and by Padma Venkatachalam, Research Associate, Howard University Center for Urban Progress.

⁹ Figures for the number of small businesses reported for case studies are for 1998 unless otherwise noted. The data reported in this subsection are drawn from several sources, including: *1998 Small Business Profile*, Office of Advocacy, U.S. Small Business Administration; *The State of Minority Business: 1997 Survey of Small Minority-Owned Business Enterprises (SMOBE)*, Minority Business Development Agency, U.S. Department of Commerce, Revised, September 5, 2001; *Women in Business*, 2001, Office of Advocacy, U.S. Small Business Administration, October 2001.

¹⁰ SBA website: www.sba.gov/gopher/Local-Information/98Pro/98dc.ans

Federal Procurement and Small Businesses. Several measures can be used to characterize the environment for small-business procurement from the Federal Government in the localities examined here.¹¹ The first is the share of all Federal small-business procurement accounted for by this locality's Federal procurement office. In the case of the District of Columbia, procurement contracts with small businesses totaled \$5.66 billion in FY 1998; and this accounted for 17 percent of the \$33 billion in all Federal procurement with small businesses in FY 1998. By contrast, small businesses in DC accounted for only 0.3 percent of all small businesses across the Nation. Many of these contract dollars are awarded outside the District. Nonetheless, the District is a prime location for small businesses interested in Federal procurement. In FY 2000, small businesses in the District obtained \$2.15 billion in Federal procurement. This works out to \$21,720 per small business in the District of Columbia. According to the *Federal Procurement Report* for FY 2000, the District ranked first in per-capita Federal procurements; and 15.9 percent of FY 2000 Federal procurement from DC-based firms went to disadvantaged businesses.

Another feature that makes Washington DC a unique environment for small businesses is its extensive infrastructure supporting small business development. Small business incentives are coordinated by the DC Office of Local Business Development (OLBD), the DC Office of Banking and Financial Institutions (OBFI), the Howard University Small Business Development Center, and the Georgia Avenue Business Access Center.¹²

HUBZone certified firms in Washington, DC. Approximately 22 of 78 HUBZone certified firms in Washington DC responded to a questionnaire seeking information about their experience with the HUBZone program.¹³ Structured interviews were also held with Federal and DC officials, and with owners of small business concerns in some of Washington DC's most economically distressed areas.

About 86 percent of the firms providing information for this study are owned by blacks, 9 percent are owned by whites, and 5 percent by Asians/Pacific Islanders. A much larger share of HUBZone certified firms are minority-owned (and especially African American-owned) than for the business population as a whole. About 64 percent of HUBZone certified firms are engaged in service-sector activities, 32 percent in technology-related activities, 9 percent in construction, and the other 13 percent in wholesale/retail, medical and education and counseling activities.

Only one HUBZone certified firm employed more than 35 workers. Over half (9 of 17) of the firms providing information on employment had five or fewer workers. For this set of HUBZone certified firms, between 45 and 51 percent of their workers reside in a HUBZone. Most of these firms reported that their employment levels had expanded in recent years. Respondent firms also reported steady

¹¹ The procurement data appearing here are taken from "Federal Procurement from Small Firms: National and State Rankings of Federal Procurement Centers on their Procurement from Small Firms in FY 1998." March 1999. Office of Advocacy, U.S. Small Business Administration.

¹² The OLBD certifies local small and disadvantaged business enterprises for graduated preferences in contracting with the district Government. The OBFI provides technical assistance to small businesses applying for financing from larger lending institutions. The other two provide small business owners with technical and market research assistance, and access to resources to obtain financing.

¹³ As of November 23, 2001, there were 161 HUBZone-eligible firms in the Washington DC metropolitan statistical area; of these 161, 70 firms were also certified under the SDB procurement program, and 49 under the 8(a) program. A total of 744 firms were 8(a)-certified on this date, and 1,035 firms were SDB-certified (734 firms were certified under both SDB and 8(a)).

growth in their annual gross income over the last 5 years; overall, their gross revenues grew threefold in this period. Firms' average gross income was \$1 million in 1998 and \$1.7 million in 2000.

HUBZone contracts and investment/employment impacts. Out of 22 respondent firms, 5 firms had received HUBZone contracts.¹⁴ One firm had received two contracts within a short interval. The remaining firms received one set-aside contract, two sole-source contracts, and one an open-competition contract won based on the HUBZone price evaluation preference. These contracts ranged in size from \$35,000 to \$4 million. Three firms confirmed that these contracts directly resulted in the employment of additional workers.

Suggestions for improving the HUBZone program. Firms were asked to describe any difficulties or drawbacks of the HUBZone program, and to suggest ways of improving this program. Many suggestions were made; the more frequent comments include these points:

- ? **SBA Website.** Some firms found the program's web-based information on *"available contracts up for bidding and sub-contracting [to be] somewhat difficult and complicated."* Instruction on website use was requested.
- ? **Program awareness and publicity.** Several firms commented to the effect: *"Agencies are not completely aware [of HUBZone]. Maybe more advertisement or awareness needed."*¹⁵
- ? **Contracting agencies.** The most commonly cited obstacle for the HUBZone program is the lack of awareness of contracting officers in Federal agencies. Consequently, few or no HUBZone contracting opportunities have arisen in these businesses' areas of expertise. One business owner commented, *"Agencies should be held accountable for keeping [sic] their HUBZone Goals."*
- ? **Contract size.** Several firms commented that contract sizes are too large; one respondent mentioned that there is *"little emphasis on including small tier subcontractors"*.

Publicity and Outreach: The Greater Washington Board of Trade. Publicity and outreach are important for HUBZone's success. Responsibility for this outreach rests with the SBA's respective district offices in charge of delivering small business programs. In the District of Columbia, the Greater Washington Board of Trade has undertaken this responsibility. The Board of Trade's broad mission is to link businesses with Federal and local Government economic development initiatives. One of its specific objectives is to increase procurement by businesses situated in less developed communities. To meet this objective, the Board created the Community Business Partnership in 1996 as a vehicle for strategic partnerships with local community development corporations (CDCs), Small Business Development Centers (SBDCs), and area universities. The Partnership provides technical (market/sales) assistance to neighborhood-based business owners and community development corporations, develops business-to-business mentor relationships between the Board of Trade members and neighborhood owners, and helps CDCs and neighborhood businesses take full advantage of available Board of Trade resources.

¹⁴ The FY 2000 data on HUBZone contract awards, summarized in section V, indicates that 5 district companies obtained contracts in 1999-2000. A total of 14 contract awards and amendments are shown for these firms. Two Maryland-based firms within the Washington metropolitan area (in Silver Spring and Laurel, respectively) also won HUBZone contracts in 1999-2000.

¹⁵ The large gap between the number of HUBZone-eligible and 8(a)-certified and SDB-certified firms illustrates the need for greater public awareness of the HUBZone program.

The HUBZone program provided additional avenues for local CDCs and small businesses to expand their markets. Through the SBA, Department of Defense, SBDCs, and local universities have worked together to connect local businesses with HUBZone contracts. The Board and Government programs, including the HUBZone program, have co-sponsored conferences, workshops and outreach sessions in various district locations. The outreach sessions generally take the forms of procurement fairs and town hall meetings. The former bring together small businesses and procurement officials; one held last year was entitled “Up Close and Personal with Procurement Officers.” The latter provide opportunities for dissemination of information about Government procurement programs to community opinion leaders. The SBA HUBZone staff has been very active in these meetings.

Overall, the Community Business Partnership’s efforts to increase the Federal and local Government contract activity of local businesses and CDCs have had some success in increasing full and part-time job creation in the District.¹⁶ However, some of the participants in the focus groups convened for this case study felt that outreach sessions could be made more effective. Business owners observed that these outreach sessions often had too many objectives and gave too little time for any single program. Further, these small business owners felt that often these meetings did not address their specific needs. They suggested that their needs be assessed prior to these sessions, and then incorporated into meeting content. It was also pointed out that although SBA Internet websites may be used by some small businesses, many businesses lack access to these sites. In effect, these participants’ comments illustrate that even in areas with a track record of successful business-Government partnerships, outreach efforts should be considered an ongoing challenge, and never a solved problem.

Philadelphia case study¹⁷

Small Business: Profile and Federal Procurement. Small businesses account for 97 percent of the 103,700 businesses in the Philadelphia metropolitan area; they also account for 49 percent of employment. Approximately 4.4 percent of all employer firms are minority owned (1997 data). The business participation rate is much lower than for Washington DC – 70 overall, 76 for the non-minority population and just 40 for its minority population (1997 data).

Small businesses obtained a relatively large share of Pennsylvania-based Federal procurement in FY 1998 (30 percent). Pennsylvania accounts for 4.2 percent of all small businesses in the U.S., but 5.6 percent of all Federal contracts with small businesses. However, the overall small-business procurement level of \$1.87 billion in that year represented just \$7,993 per small business (in Pennsylvania); in FY 2000, small business procurement in Pennsylvania fell to \$1.03 billion.¹⁸ Whereas 1.0 percent of all small businesses in the Washington DC metropolitan area are registered participants in the SDB or 8(a) programs, only 0.1 percent of Philadelphia -

¹⁶ Economic & Community Development Strategies in Our Neighborhoods: Community Business Partnership: Washington, DC BusinessLINC Chapter, Program Year 2000. Page 5.

¹⁷ The material for this Philadelphia case study was collected during a site visit on September 18, 2001, by Jessica Gordon Nembhard, Assistant Professor of Afro-American Studies, University of Maryland, College Park, and Gary Dymski. Dr. Nembhard subsequently wrote up the material presented here.

¹⁸ Some figures reported here pertain to Pennsylvania as a whole, and not to Philadelphia; this is also true for the case study discussions that follow. This is necessary for statistics reported only at the state level.

area firms are registered participants in these programs.¹⁹ The *Federal Procurement Report* for FY 2000 shows that overall Pennsylvania ranks 30th in per-capita procurement. In Philadelphia County, SDB businesses obtained some 3.0 percent of all procurement to local firms. In the suburban counties surrounding Philadelphia (Pennsylvania only), SDB contracts accounted for just 1.1 percent of all local procurement.

The case study in Philadelphia was far less extensive than in Washington DC: it involved a daylong visit to the Philadelphia-area SBA office and to several local small businesses involved in Federal procurement activities. As the statistics above suggest, the Philadelphia office of the SBA has been very successful at nurturing the growth of minority-owned and disadvantaged businesses. The SBA staff attributed this success in part to their ability to bundle the various resources that the SBA makes available – loan guarantees, business training, and procurement per se. This office also works proactively with both the local banking community, local Government, and community-based economic development programs. In effect, local SBA officials facilitate information flows between small businesses, banks, and Government offices; they provide support for community-based economic development initiatives; and sometimes serve as brokers with the aim of increasing contract flows to disadvantaged businesses and to businesses operating in historically lower-income/high-unemployment areas. One notable example of this is the close cooperation between the SBA and the Enterprise Center in West Philadelphia. The Enterprise Center occupies the old American Bandstand building; this historic site, which sits in the midst of a lower-income area of the inner city, has now been completely rejuvenated as a non-profit business incubator. Its founder, Della Clark, works with non-profits and for-profit start-up ventures; her center's efforts are assisted by a variety of SBA program vehicles.

Barriers to HUBZone contracting. Given this track record of success, it may be surprising to note that the HUBZone program is off to a slow start in this area. As of September 2001, only one company in Philadelphia had obtained Federal contracts and received credit under both the 8(a) and HUBZone category.²⁰ One reason for this lack of HUBZone activity is the focus of the Philadelphia office on SDB and 8(a) activities, together with the relatively small amount of overlap between the 8(a) and HUBZone programs. SBA staff pointed out that of 90 HUBZone certified businesses in their office's service area, only 13 are also qualified for participation in SDB procurement. Data obtained from the *PRO-Net* database on November 24, 2001, indicates that of 49 HUBZone certified businesses in the Philadelphia metropolitan statistical area per se, 34 of which are minority owned, only 11 are also certified for participation in the 8(a) Business Development Program, while 20 are also certified under the SDB criteria. As of that date, this metropolitan area had 68 8(a)-certified companies and 115 SDB-certified companies.

This characteristic of the Philadelphia-area population of HUBZone SBCs leads to two interacting problems. The first is procurement officers' lack of knowledge about how to do HUBZone procurement. The second problem is contracting officers' failure to make HUBZone contracting opportunities available. SBA staff from the Philadelphia office indicated that procurement officers often use set-aside contracts for the 8(a) program; but they are reluctant to

¹⁹ These calculations use 1998 data on small businesses and November 24, 2001 data on procurement program participation.

²⁰ The 1999-2000 data on HUBZone contracts indicate no contract awards for Philadelphia, and one award (with two subsequent contract modifications) for a firm in Elizabeth, New Jersey.

do this given their lack of experience with HUBZone, and their lack of knowledge about the size and characteristics of the available pool of HUBZone certified firms.

One capable firm in the environmental-services area, which is both 8(a) qualified and HUBZone certified, verified this assessment. This company, which has obtained procurement contracts from Federal offices across the Nation, has not seen any HUBZone contracts posted in its areas of competence (except for one contract awarded before the firm was certified). For this firm's Chief Financial Officer, the key problem is that Federal agencies and large prime contractors don't know about the HUBZone program. Indeed, this firm's marketing officer has been educating procurement officers about the HUBZone program and its relationship to 8(a) contracting, with which these officers *are* familiar. This effort has not yielded concrete results. This interviewee indicated that contract-bundling practices and the relatively small scale of contracts available for small business both worked against contractor interest in the program. Despite this pessimistic assessment of the current situation involving HUBZone, it should be noted that this firm was quite excited by the community-development focus of the HUBZone program. While it was already qualified as a HUBZone concern (50 percent of its workforce of 55 people live in HUBZone), this firm is moving its headquarters to downtown Philadelphia to demonstrate its commitment to inner-city revitalization.²¹

During the case-study visit, several other problems with the HUBZone program were pointed out: occasional changes in HUBZone boundaries create instability in the program and discourage investment and participation; ineligibility for larger contracts for non-manufacturers and distributors; and problems caused by moves across HUBZone lines of small businesses' employees.²²

Kansas City case study

Small Business: Profile and Federal Procurement. Small businesses account for 95 percent of the 39,100 businesses in the Kansas City metropolitan area, as well as 48 percent of employment. Approximately 4.6 percent of all employer firms are minority owned (1997 data). The business participation rates overall and for non-minorities are moderate (76 and 83, respectively); but for minorities, business participation rates are very low (35). Another indicator of the barriers to minority business ownership is that Missouri has 1.04 percent of the overall population of minorities in the U.S., but just 0.87 percent of all minority-owned businesses.

Small businesses obtained just 9.3 percent of Federal procurement in Missouri in FY 2000. Nonetheless, Missouri accounts for 2.1 percent of U.S. small businesses, but 3.5 percent of all Federal contracts with small businesses. Small business procurements of \$534 million in FY 2000 represented \$14,362 per small business. This figure is fairly robust; indeed, Missouri ranks 6th in per-capita Federal procurement (FY 2000). The low levels of minority-owned and socially disadvantaged businesses, noted above, are also reflected in procurement. In the City of St. Louis, only 2.3 percent of all FY 2000 procurement went to SDB firms; in Jackson County,

²¹ This interviewee also indicated that it had been difficult to win initial HUBZone certification. The other small businesses interviewed during this case-study visit indicated, to the contrary, that their certification processes had been remarkably easy, especially in comparison with other Government programs.

²² Note that the first two of these problems have been addressed through appropriate changes in HUBZone regulations.

encompassing much of Kansas City, SDB firms received just 1.7 percent of all FY 2000 procurement. In the Kansas City metropolitan area, just 0.2 percent of all firms are registered under the SDB procurement program.

HUBZone activity. As of November 24, 2001, only 19 firms in the Kansas City metropolitan area were HUBZone certified. As of the same date, 48 were 8(a) certified, with 4 registered under both programs. Some 68 firms were registered under SDB; 66 of these firms are minority-owned, and 5 of them are HUBZone certified. In FY 2000, one firm won a HUBZone contract (with two modifications). One other firm won a contract in Kansas (in Topeka, with one modification); but no HUBZone contracts were awarded in Missouri in FY 2000.

San Antonio and El Paso case study²³

Small Business: Profile and Federal Procurement. Small businesses account for 98.7 percent of all employee firms in Texas as a whole. In the San Antonio metropolitan area, 94.7 percent of the 26,970 firms are small; in the El Paso metropolitan area, 92.5 percent of the 10,390 firms are small. Small firms account for 45 percent of employment in San Antonio and for 50 percent in El Paso. Statewide, 18.4 percent of employer firms are minority-owned (1997 data). The overall business participation rate is 79. However, while the business participation rate for the non-minority population is high (106), that for minorities is average (43).

Small businesses obtained 12.0 percent of Federal procurement in Texas in FY 2000. Overall, Texas ranks 14th in per-capita Federal procurement. Small businesses in Texas obtained \$2.19 billion in procurement in FY 2000, representing \$5,700 per small business. This figure is well below that of Washington DC and Missouri, but it varies considerably from place-to-place within Texas. Reflecting the relatively large proportion of minority-owned businesses in the state as a whole, 13.5 percent of FY 2000 Federal procurement expenditures in Bexar County (San Antonio) went to SDB firms.²⁴ In the El Paso metropolitan area, 0.6 percent of all small businesses are registered for the SDB procurement program; in San Antonio, just 0.3 percent are.

Experience with HUBZone. San Antonio and El Paso have similar levels of firms participating in SBA procurement programs. In the San Antonio metropolitan area, 80 firms are registered for SDB, and 79 for 8(a); of these, 18 firms and 16 firms, respectively, are HUBZone certified as well (all figures reported here are for November 24, 2001). HUBZone certified firms total 36; of this number, a majority (29) are minority-owned. A similar picture exists in El Paso, which has 58 SDB firms, of which 10 are HUBZone certified and 46 8(a)-registered firms, of which 8 are HUBZone certified. There are 37 HUBZone certified firms, of which 33 are minority-owned. In FY 2000, one El Paso firm obtained a HUBZone contract; two San Antonio firms won contracts, along with three contract modifications.

The San Antonio case study involved a 1-day meeting with the SBA's San Antonio district office personnel and HUBZone certified business owners. The meeting focused on the investment and employment impacts of firms who have HUBZone contracts and areas for improvement from the

²³ The Texas case study was conducted by Carolyn Aldana, Associate Professor of Economics, California State University, San Bernardino, in September 2001. Professor Aldana also conducted the Fresno case study that follows.

²⁴ Figures for El Paso County (El Paso) were not reported separately in the FY2000 *Federal Procurement Report*.

perspectives of HUBZone certified business owners. Additionally, district office personnel were interviewed separately to gather feedback.

HUBZone contracts and investment/employment impacts. Of the 13 businesses in attendance, all but one contractor was minority-owned. Five had been awarded HUBZone contracts since FY 2000. Contracts ranged from \$200,000 to \$2.5 million. One firm had received six contracts within 2 years. Three firms indicated that employment increased as a direct result of the contracts. In some cases, employees are hired before securing a contract in order to meet the 35 percent residency requirement of their employees. One firm offers an incentive for their current employees to move into a HUBZone census tract. If the employee buys a home in one of these tracts, the company provides financial assistance. In other firms, employees who live in HUBZone tracts are being trained for additional responsibilities, potentially leading to future promotions. Others report that they actively seek employees from the qualified tracts upon retirement of current employees. They also offer job fairs in these tracts.

The HUBZone contracts allowed for investment opportunities for all five of the firms questioned. Investment projects, totaling nearly one half million dollars, ranged from small computer purchases to machinery to building purchases. Other firms indicated that they moved into HUBZone tracts for the purpose of participating in the HUBZone program. They noted that they believe real estate prices have increased solely due to the HUBZone designation.

HUBZone program areas of improvement. A general discussion followed in which concerns were shared about the administration of the program. New HUBZone contractors expressed concerns about securing a contract. Those who had previous experience with Government contracts because of their 8(a) or SDB eligibility indicated that it generally takes about 2 years to get a contract. These more experienced companies are the ones who were able to win HUBZone contracts. Some feel it is because Federal procurement officers are not interested in establishing new relationships with firms when existing contract holders are available. Thus, 8(a) contractors are readily awarded HUBZone contracts while new businesses find it difficult to secure contracts.

The contractors all noted that the awards they receive are not from the local Government procurement officers. They expressed concern over the availability of local work. The SBA staff noted that they are currently conducting training for local Government procurement officers, but warned that there is turnover in these positions which affects awareness of the HUBZone program. Thus, training must be conducted more often than what is currently done. The staff also indicated that their office does not currently have adequate resources to conduct continuous training sessions, with procurement officers, or with local contractors. They have dual assignments with the 8(a) program.

Comments from SBA district office personnel. SBA staff and the local contractors all asked that the Government procurement officers be accountable to SBA so that the planned FY 2003 three percent figure for HUBZone contracts can be realized. The current belief is that Government procurement officers do not fully realize that the set-aside requirement is mandated by law.

The SBA staff also indicated that they are experiencing difficulties in being notified when a HUBZone, as well as an 8(a), award has been made through other than set-asides. Also, Government procurement officers are not following the order of precedence. They do broadbrush types of justification. To do full and open competition, they bypass all 8(a) and HUBZone requirements. "We're only supposed to get 3 percent for HUBZone, and we're not even getting that. They're not doing set-asides. The report should say it's a major problem that needs to be corrected." Lastly, the SBA staff noted that the price evaluation preference, mandated by Congress, should be advertised.

The El Paso HUBZone Development Center of Excellence. The El Paso Hispanic Chamber of Commerce formed a HUBZone marketing team, working closely with staff from the SBA and several area business leaders. The team developed a strategic partnership with the U. S. Space and Missile Defense Command (SMDC), Fort Bliss military officials, including the Directorate of Contracting, University of Texas, El Paso (UTEP), small business owners, area business service providers, representatives from financial institutions, and other interested community members. This partnership is the HUBZone Development Center of Excellence. This Center provides tailored programs and services to area businesses seeking HUBZone certification and contracts. The Center design is based upon the Baltimore Technology Incubator model that, at the time of development, was the only center designed to provide HUBZone business services. The Center opened its doors in May 2001, located in the Chamber offices.

In essence, the Center acts as a catalyst to increase the participation levels of El Paso's business community in the HUBZone contracting program. Since its inception, the number of HUBZone certified businesses increased from eight to 36. Companies are utilizing the services offered by the Center, which are resulting in HUBZone contract awards.

The opening of the HUBZone Development Center of Excellence is but one of six phases of the marketing strategy of the HUBZone marketing team and the Chamber. They are currently identifying HUBZone businesses and marketing the program to them. Additionally, they identify HUBZone contracts, and assist businesses in applying for them. Also, as maintaining a center involves resources, partnership expansion with shareholders, investors and businesses are also being pursued. Their fifth phase is advocacy at the national level. The next phase involves tier teaming strategies, one of which involves marketing the HUBZone program to the Tiguas of Ysleta del Sur Indians, who occupy about 26 acres of trust land and live in housing built by Government loans on the reservation or in the El Paso community.

In the first half of 2001, 1,106 firms, mostly Hispanic, were identified within the 16 HUBZone qualified census tracts in El Paso. They were mailed information on the HUBZone program, and were surveyed to:

- ? Provide and measure awareness of the HUBZone program;
- ? Collect contract information from the businesses;
- ? Identify type of business;
- ? Evaluate level of interest in the HUBZone program; and
- ? Ascertain level of services businesses may need to participate in the program.

The information provided is maintained in a uniquely designed HUBZone database. The information is used to match local business with Government contracts. It assists in marketing the HUBZone program to businesses, offers technical assistance in seeking program certification, as well as assistance in contract bid preparations.

A one-day meeting with local SBA district office personnel, members of the El Paso Hispanic Chamber of Commerce, and local HUBZone certified business owners was conducted in September 2001. The focus of the meeting was to describe the marketing of the HUBZone program through the HUBZone Development Center of Excellence and to assess the HUBZone program in the El Paso area.

Assessment of the HUBZone program in El Paso. The problem of identifying which contracts were considered HUBZone and which were 8(a) was a source of concern for the business owners, the Chamber officials, and SBA personnel. They noticed that the number of contracts for 8(a) has dramatically dropped in the last 2 years. The original hope was that the number of HUBZone contracts would add to the 8(a) contracts, but that has not yet happened in El Paso. 8(a) and HUBZone contractors must compete for a limited number of contracts offered by local Federal procurement agencies. Of the 35 HUBZone certified contractors, only five are also 8(a) contractors. As with other site interviews, the businesses in El Paso expressed the need for Government procurement officers to offer more HUBZone contracts, at least until they reach the designated levels.

A concern over the way in which the qualified census tracts in El Paso were selected was expressed. Several tracts adjacent to the HUBZone qualified tracts share similar unemployment and low-income characteristics, but do not qualify for such designations.

Fresno case study

Small Business: Profile and Federal Procurement. Small businesses account for 82 percent of the 14,728 businesses in the Fresno metropolitan area, as well as 22.3 percent of employment. Approximately 16 percent of all employer firms are minority owned (1997 data). The business participation rates overall and for non-minorities are moderate (80 and 111, respectively); but for minorities, business participation rates are low (47). Additionally, business participation rates for Blacks are 32 percent, for Latinos, 34 percent, and for Asians/Pacific Islanders, 82 percent.

Small businesses in California obtained 18.75 percent of all Federal contracts in FY 1998. California accounts for 11.5 percent of U.S. small businesses, receiving 9.4 percent of all Federal contracts with small businesses. Small business procurements of \$2.79 billion in FY 1998 represented \$4,381 per small business.

HUBZone program statistics: There were 20 8(a) firms as of September 24, 2001, of which 8 are HUBZone certified within the 24-county area serviced by the Fresno SBA office. Of the 13 HUBZone eligible firms, 9 are minority-owned. There are 21 SDB-certified firms, of which 7 are also HUBZone eligible. In FY 2000, three Fresno firms obtained four HUBZone contracts, while one Visalia firm won two contracts.

In October 2001, contact was made with the SBA office in Fresno. The office services 14 counties, representing 7 of the 24 rural HUBZone eligible counties in California, as well as 7 counties containing eligible census tracts. The office services 6 HUBZone metropolitan areas in which the number of qualified census tracts per metropolitan statistical area (MSA) ranges from one in San Luis Obispo, to 19 in Fresno.

The Fresno MSA has the most HUBZone activity, with 13 certified contractors. Four companies had HUBZone contracts within the first 2 years of the program through the Department of Veterans Affairs, National Aeronautics and Space Administration (NASA), the Department of the Navy, and the National Park Services. One SBA official noted that firms already familiar with Government contracts, mostly through 8(a), are moving into HUBZone tracts to seek program certification. Federal procurement officers are contracting with these relocated firms that now employ local residents and have invested capital in the local economy in order to obtain their HUBZone certification.

Kings County, where Naval Air Station Lemoore is located, has 7 HUBZone SBCs. The Chambers of Commerce, Economic Development groups and centers, are active in educating businesses on what Government programs are available. Kern County has 13 eligible census tracts, within the Bakersfield MSA. Within the county, Bakersfield has four contractors that are HUBZone certified. San Luis Obispo has one HUBZone eligible census tract. There are two HUBZone certified contractors located in this tract. Monterey County has six qualified census tracts within the Salinas MSA, and has one HUBZone certified contractor.

The rural HUBZone counties served by the Fresno SBA office are Kings, San Benito, Mono, Inyo, Alpine, Mariposa, and Tuolumne. Only Kings County has any HUBZone activity. Other counties, which contain eligible census tracts with various MSAs are Madera (Fresno), Stanislaus (Modesto), and Merced. All these counties have no HUBZone certified contractors. These counties, located in the central region of California, are mostly agricultural. According to SBA, businesses don't realize that Government contracts could benefit them, United States Department of Agriculture (USDA) contracts in particular. This lack of awareness of the program makes it difficult to increase contracting activity.

Large business Federal contractors and the use of HUBZone subcontractors. Another way that HUBZone companies can benefit from Government contracts is through subcontracts from large firms. For example, a large Government contractor aggressively searched for HUBZone subcontractors after learning of the HUBZone subcontractor provision. The firm compiled a list of all the small businesses in California with which it has done business. They then matched this list against the qualified counties and census tracts via the Internet. Thirty-five companies were found to reside in qualified HUBZone areas. Further investigation indicated that two of the firms were eligible for the HUBZone program. These two firms, as a result of their HUBZone status, now enjoy increased levels of subcontracting with the large firm.

Because this large prime's work for the Government is very specialized, it chose not to solicit subcontractors with which it did not already have an established business relationship. These efforts offer a good example for other large companies that want to expand HUBZone activity.

Laguna Pueblo Reservation case study²⁵

The reservation. The Laguna Pueblo Reservation has a population of 3,724 residents, 98 percent of who are Native American. About half of the enrolled tribal members live on the reservation. The reservation encompasses six major villages and covers 533,000 acres. The reservation is 50 miles west of Albuquerque, NM, and straddles a major thoroughfare, Interstate 40. The tribe owns and operates four companies, including the only nursing center in New Mexico owned and operated by Native Americans. Additionally, the tribe oversees 26 federally funded programs. The 1990 Census reports a reservation unemployment rate of 19 percent and a median household income of \$17,000.²⁶

The firms. Two firms on the Laguna Pueblo Indian Reservation were surveyed in July of 2001. Both are tribally owned corporations, have extensive histories of Federal contract awards, and provide much needed employment for this otherwise underutilized reservation. The first specializes in heavy construction and environmental remediation projects. Established in 1988, the firm employs 95 individuals, and posts yearly gross revenues of \$16 million. It participates in the 8(a) program and was HUBZone certified in September 1999. It has obtained one HUBZone contract, an Army Corps of Engineers mine reclamation project worth \$5 million. The company did not hire any new workers for this project, but rehired previously laid off workers. The second company is a high tech manufacturing and technical service company averaging \$18 million in annual revenue. The company exited the 8(a) program several years ago, and became HUBZone certified in December 1999. It employs between 218 and 350 employees, of which 85 percent are Native Americans. This firm was named Small Business of the Year in 1996 by NASA/McDonald Douglas Space Systems and engages in electronic manufacturing, focusing on cable and mobile communications systems and scientific shelters. As of July 2001, the firm had bid on, but had not won, any HUBZone contracts. The company hopes to use the presence of broadband technology running through the reservation to negotiate some information-technology projects with Federal agencies.

HUBZone experience. Both companies have the capacity to handle very large contract awards. Officers at both voiced concerns over upper limits on HUBZone sole source contract awards (\$3 million for services and \$5 million for manufacturing). To overcome information barriers and misconceptions, both firms' officers are actively marketing their firms' capacity and attempting to inform contracting officers about the HUBZone program's potential.²⁷

²⁵ This case study, along with the one that follows, was conducted by Elizabeth Zahrt Geib, Assistant Professor of Economics, Lewis and Clark College, Portland, Oregon. In addition to the two reservation case studies summarized here, Professor Zahrt also conducted studies of reservations in Washington and in Montana. These case studies are available in her full report, which is available on request.

²⁶ The 1990 Census is the most recent source of statistical data by reservation. 2000 Census figures by reservation are not yet available.

²⁷ These firms also have found that many contracting officers are not aware of the Indian Incentive Program, a Department of Defense program that grants 5 percent of the project award to prime contractors that subcontract with a Native American firm.

North Dakota Reservations case study

The reservations. The Fort Berthold Reservation is home to three tribes: the Mandan, Hidatsa, and Arikara. The reservation covers 418,000 acres of land in four counties. Only about 56 percent of the total reservation population of 5,400 are Native American. The reservation unemployment rate is 26 percent, and median household income is \$11,500. The tribal headquarters of the reservation, located in New Town, North Dakota, is 84 miles from Minot Air Force Base and 149 miles from Bismarck, the capitol.

The Turtle Mountain Indian Reservation is home to the Turtle Mountain Band of Chippewa Indians. Located in Rolette County, itself a HUBZone, the reservation encompasses approximately 70,000 acres and is only about 12 miles wide. The reservation population is around 5,000, 95 percent of which are Native American. Located just below the Canadian border, the nearest North Dakota urban center is Grand Forks, 173 miles away. The unemployment rate on the reservation is 34 percent and the median household income is \$11,000.

The firms. A high percentage of North Dakota HUBZone firms are located on reservations. Sixty-two percent of HUBZone firms in this state are Native American owned.²⁸ This is due in large part to a concerted effort on behalf of Native American owned firms by local SBA officials, contracting officers at Minot and Grand Forks Air Force Bases (AFBs), and a business network among Native American firms themselves.²⁹

The pattern for the companies interviewed in North Dakota is very similar to that for the Laguna Pueblo located in New Mexico. For example, one tribal-owned firm on the Turtle Mountain Reservation, established in 1979, has had a long series of manufacturing contracts with the Department of Defense. This firm employs up to 160 workers; at present, it has 70 workers, 98 percent of which are tribal members, and annual gross revenues of \$9 million. This firm graduated from the 8(a) program in the early 1990s and became HUBZone certified in August 1999. As of July 2001, the company had secured a 3-year HUBZone contract generating \$5 million per year with the U.S. Army. This contract has sustained the firm's employment and investment levels. Another company owned by this same tribe, specializing in information processing and employing 45 individuals (primarily tribal members), became HUBZone certified in April 2000; however, it has yet to obtain a HUBZone contract.

One Native American-owned construction firm located on the Turtle Mountain Indian Reservation in Belcourt as established in 1991, certified for the 8(a) program in 1994, and became HUBZone certified in June 1999. The firm has obtained many Federal contracts with both local Air Force Bases, and posts annual gross revenues of \$500,000. The company recently won Contractor of the Year at Grand Forks AFB. This HUBZone SBC has secured one HUBZone contract, at Grand Forks AFB. The owner asserts that most of his firm's business

²⁸ Interviews were conducted with several firms in these two reservations, with a Native American owned firm in Fargo, and with contract supervisors in local military bases.

²⁹ According to local SBA officials, another factor is that the 35 percent employment rule limits the number of inner city and rural county firms that can qualify for HUBZone certification, because of the small size of urban North Dakota HUBZone and the sparse population in the rural HUBZones.

has come through 8(a) contracts or open competition; many solicitations have started as HUBZone bids but become open contracts when no HUBZone firms deemed responsive have bid.³⁰

Implementing the HUBZone program. The efforts of tribal firms to build the HUBZone program has been assisted by the interest of the Minot and Grand Forks AFB contracting officers in providing contracting opportunities for small businesses located in North Dakota.³¹ These contracting officers have worked diligently to educate themselves about the HUBZone program and to develop working relationships with regional SBA staff and local small businesses. As noted, some limited success with HUBZone contracting has been achieved.

The case study of North Dakota indicates also the potential to build local economies when Federal contracting opportunities are available nearby. This potential is multiplied when, as in this case, contracting officials recognize their role in making the program work, actively seek out and recruit firms, and are proactive in all stages of the program's development.

Early in the program's tenure, both officers had difficulty finding sufficient competition for HUBZone set-asides. Since that time, these officers have met with local tribal representatives and firms to sell the program and increase competition. These efforts are ongoing.³²

Lake County, Oregon: a rural case study

Lake County, with a population of 7,400, is an enclave of rural communities within south central Oregon. Spreading over 8,000 square miles, the primary employment sectors are manufacturing, agriculture, and Government. With an unemployment rate above 10 percent and a poverty rate twice that of Oregon's average, Lake County businesses have had significant difficulties in acquiring the business needed to boost the area economy. Like countless other rural communities across the United States, Lake County is caught in a downward cycle of stagnant economic growth and lack of investment opportunities.³³

Lake County firms have had special difficulties in capturing Federal contracts, and are vulnerable to the presence of non-local firms located within its parameters. A report by Sustainable Northwest organization finds that during the 1994-99 period, "local firms captured 33 percent of Federal contracts, of which 94 percent were valued at under \$25,000. Sixty-seven percent of contracts for

³⁰ More individual firm experience are discussed in the full American Indian Reservations case study by Professor Zahrt Geib.

³¹ According to the *Ranking of Small Business Shares of Purchase Office Prime Contract Awards* for 1998, 89 percent of FY1998 contracting by Grand Forks AFB went to small businesses, as did 66 percent of procurement by Minot AFB. The Government-wide figure was 18 percent.

³² The full report on American Indian reservations includes two additional case studies: one of the Flathead Reservation in Montana, and another of the Colville Indian Reservation in eastern Washington. The experience with HUBZone for the Colville Reservation's firms parallels what is reported here: contracting officers are seeking to expand their pools of HUBZone-eligible businesses so that they can open more contracting opportunities for HUBZone-eligible firms.

³³ The particular problems of rural areas have been increasingly recognized and addressed by the SBA. See *Advancing Rural America*, Office of Advocacy, U.S. Small Business Administration, March 2001.

work on Federal land in the county were awarded to non-local firms. The average contract value for locals was \$12,924 while it was \$30,612 for non-locals.”³⁴

The competition from non-local firms for Federal contracts within Lake County means that local firms are less able to use contracting as a major tool to local development. However, through HUBZone certification, firms located in Lake County could increase their potential to secure Federal contracts. What is required is an entity that can activate that potential. This activation agent can be Sustainable Northwest (SN). SN is a non-governmental organization that promotes both economic development and resource conservation in the United States’ northwestern

areas.³⁵ SN’s strategy is to work with “rural communities and businesses on economically viable

and environmentally sustainable initiatives that strengthen their self-reliance, long-term viability and commitment to people and place” and to “promote leadership, innovation and understanding to support and advance local sustainability efforts.”³⁶ SN has been working to develop both economically and environmentally sustainable projects in Lake County since 1999.

Despite this competition from non-local firms, SN finds that local contracting is quite high in particular industries, primarily in the areas of equipment, fencing, and certain labor activities. Local firms in these areas are quite competitive vis-a-vis non-local firms, and hence capable of building up the capacity to obtain Federal contracts. Thus, one strategy for sustainable locally based development is to position local firms to take advantage of Federal contracting opportunities in activities at which they excel.

To date, a significant number of local firms have not succeeded at this strategy, due to inadequate training and lack of knowledge of the Federal contracting system. Consequently, SN has made training for HUBZone contracts a top priority. In November 2000, 15 firms attended a HUBZone program workshop. Since then, additional workshops have been held. These activities have had an extremely positive impact on firms in the area, as “13 have registered as HUBZone firms, with Sustainable Northwest’s assistance, making them eligible for these contracts.”³⁷ SN has also surveyed Lake County firms to identify their impediments to accessing Federal contracts. Most of those surveyed cited lack of experience in bidding and managing crews, especially in large jobs specializing in labor-intensive activities. Local firms also cited unfair labor practices by non-local firms and the lack of contracts tailored to local firms’ capacity.

SN has hired a former Forest Service-contracting officer, whose specific duties include assisting local firms in HUBZone certification. This SN employee, in place only since January 2001, has played an active role in HUBZone outreach. He brings his own computer,

³⁴ Marcus Kauffman, “An analysis of Forest Service and BLM Contracting and Contractor Capacity in Lake County, Oregon: 1994-1999,” Sustainable Northwest, July 2001.

³⁵ The SN’s stated mission is “to build partnerships that strengthen local capacity to promote environmentally-sound economic development in communities of the Pacific Northwest.” Sustainable Northwest: Who We Are. Mission Statement, July, 2001. <http://www.sustainablenorthwest.org/>. pg. 2

³⁶ Ibid.

³⁷ Kauffman, July 2001.

answers firms' questions, and signs them up on the spot. To date, little contract activity – and hence small amounts of investment and employment impact – have resulted. Although several firms have become HUBZone certified over the past year, only one Forest Service contract has been set-aside for HUBZone bidders. Local firms are taking some time to familiarize themselves with HUBZone's potential. At the same time Federal-contracting officers are afraid that there are insufficient HUBZone firms to permit them to set aside requirements under the HUBZone program.

Despite the slow start, HUBZone contracts in Lake County should increase as firms and Federal contractors become aware of one another. At this writing, two local HUBZone firms were bidding on a local rock-crushing contract for \$100,000-\$250,000. As local firms successfully complete Federal contracts, the door to more contracts for more firms will open. One promising aspect of SN's involvement is the organization's commitment to a broad engagement with the economic and sustainable development issues of the rural northwest. In addition to the Lake County initiative, SN is actively engaged in a forest stewardship program in Wallowa County and a sustainable agriculture project in Okanoga County.

Appendix B

HUBZone Impact Methodology

A Plan for Quantitative Assessment of HUBZone Program's Impact

This section sets out a plan for measuring the impact of HUBZone employment and investment impact when a larger volume of contract data is available for analysis. This plan draws on the long tradition of research assessing the outcomes of urban and rural programs. At the same time, because of the design of the HUBZone program, this plan offers a unique approach that recognizes the distinct space-based and firm-based dimensions of HUBZone. This appendix provides a brief discussion of impact measures and approaches.

How much data are enough to shift from the qualitative and case-study methods used in this report to the quantitative methods set out in this subsection? There is no definitive number. The key is that this impact be measurable – that is, of sufficient scale to register quantitatively – in any given community. Take a simple example of a city of 1,000,000, in which 15 percent of the population lives in a HUBZone. Suppose there are 3 persons per household in this section of the city, and that average household income is \$20,000. This implies \$1 billion total income in HUBZone areas of this city. To equal 1 percent of this income flow, HUBZone contracts would have to equal \$10 million in this city. This seems quite large. But note from Table 5.3 that the average HUBZone contract (as of FY 2000) is about \$355,000. Some 28 contracts of this size would add up to \$10 million. For a city the size of San Diego or Cincinnati, this goal seems attainable with sustained effort and dedication.

Once it attains sufficient scale that its impact shifts from firm level to economy-wide, the HUBZone program can be expected to have two different effects. Procurement contracts won by HUBZone firms will affect their own levels of success. The effects of such activity will also be felt in the communities in which these firms and their employees live. Capturing these distinct effects suggests three complementary approaches for assessing the impact of the HUBZone program.

- ? **HUBZone firm-based analysis:** This would be composed of an evaluation of HUBZone firms, and of the program's effect on participating firms' income and revenue flows, employment and expansion activity. This calls for program-based analysis, emphasizing the characteristics of HUBZone contracting per se. This evaluation should include some statistical analysis of firms participating in the HUBZone program, patterns of contract awards, and growth of HUBZones over time.
- ? **HUBZone program's short-run and medium-run community economic effects:** This would constitute an evaluation of the HUBZone program's immediate effect on the level of activity in local HUBZone economies. The focus shifts from participating firms to the communities in which they are located. The data on procurements under the HUBZone

program becomes an input into quantitative models of market processes in these urban and rural areas.

- ? **HUBZone program's longer-run effects on firms and communities:** This approach would be an assessment of the HUBZone program's longer-run economic and social effects on firms and communities. If the program becomes quantitatively significant and well-established, some broader changes may be spurred in the firms and areas it targets. These effects may involve changes in public services, in private-sector investment and construction, and in the quantity and quality of local housing and retail establishments.

The assessment of the firm-based impact of the HUBZone program will depend on the extent of available data. As more data are made available, richer analysis can be conducted. Thus, this plan focuses on short-run and medium-run effects. Longer-run effects will be evidenced substantially after the HUBZone program is well established and operational for several years.

The HUBZone Context. Before discussing specific impact measures, it will be useful to put the program into policy and research context. As noted above, the HUBZone program represents a significant new thrust in urban policy. Its emphasis on historically underutilized business (HUB) areas closely parallels the focus of other programs on lower-income and/or high-poverty areas. In effect, the HUBZone program reinforces the effects of recent Federal, state, and local programs that concentrate tax benefits, program expenditures, and housing in lower-income areas.

This notion of focused resources in high-need areas resembles the design of some "Great Society" initiatives during the War on Poverty of the 1960s. However, whereas the programs of those years relied primarily on inflows of Federal categorical spending, the area-centered programs of the 1990s rely on diverse resource flows. Whereas the Great Society initiatives largely attempted to replace absent private-sector revenue flows, the 1990s initiatives attempt to *leverage* private-sector revenue and employment flows. Incentive mechanisms have largely replaced categorical spending.

The recent literature on urban communities emphasize the importance of non-linear growth, such as cumulative causation and path-dependence. The idea is that small changes in the initial conditions at one point in time can lead cumulatively to massive shifts in the economic vibrancy of urban neighborhoods over the longer term. The Federal incentive/leveraging programs are based on the idea that the accumulation of a large number of individually small incentives will have a large cumulative neighborhood effect.

While this premise underlies most U.S. urban policy initiatives undertaken since the early 1980s, it remains controversial. Thus, it is important to understand the extent to which this leverage-based urban-revitalization approach is viable. This is especially true because in some cases, urban revitalization has been accomplished via the massing of large-scale private-sector resources, using substantial public-sector inducements. Two famous cases are those of Baltimore's inner harbor area and of downtown Cleveland. In both cases, massive stadium, museum, and commercial investments fueled shifts in urban growth trajectories.

Several ideas about community growth should be examined carefully, as urban policy confronts the new millennium. The HUBZone program's mandate to examine employment and investment impacts may provide an appropriate mechanism for evaluating the following core urban-policy questions:

- ? What is the relative magnitude of the incentives and resource flows associated with different place-based incentive programs, such as enterprise zones, Empowerment Areas, HUBZones, and so on?
- ? How do HUBZone program activities intersect with the activities of other place-based programs?
- ? How can HUBZone program incentives leverage private-sector resources to induce employment and investment turnarounds in historically underutilized business districts?
- ? Are these programs' place-based incentives sufficient to induce impacted areas' revitalization? Are there differences in the prospects of impacted urban and rural areas?
- ? How important for impacted areas' revitalization is the presence of a large-scale urban renaissance program like that of Cleveland?

It will not be possible to definitively answer such questions like these by analyzing HUBZone outcomes solely. These questions are open-ended and defy easy answers. Nonetheless, these are the sort of questions that the HUBZone program's design provokes. In effect, HUBZone has joined the long tradition of American experimentation with fresh approaches to stimulating underutilized business areas and disadvantaged businesses.

Apart from these policy questions, the HUBZone program provides an opportunity for urban researchers to gain empirical and institutional insights into some theoretical models of urban economic processes.

A Recommended Methodology for Analysis of HUBZone Impacts. The recommended model for estimating employment and investment impacts is a modified input-output model. The logic of this model can be summarized as follows:

The Input-Output Model

Economic activity in a given spatial area consists of all processes that generate outputs of goods and services therein. This economic activity can be viewed either as output or as the income earned by those generating the output. Output results from the interaction of two factors: the net "injection" from outside this area of demand for goods and services produced therein; and "multiplier" effects, representing additional demands for goods and services "induced" by the re-spending of income associated with net injections. Therefore, estimating output and/or income in a given area means estimating the value of that area's injections and of its expenditure multiplier.

Input-output models are designed to encompass fairly large spatial areas with many supply-demand inter-linkages. The larger the area encompassed, the more the inter-linkages and the larger the multiplier. The approach recommended is to measure the geographical area's economic activity at the time of HUBZone designation and contrast that finding with the following indicators:

For urban HUBZones:

- ? Metropolitan-area impact: The amount of economic activity (including the employment and investment impacts singled out in the authorizing legislation) generated in the metropolitan area (MSA) as a whole by HUBZone contracts.
- ? HUBZone-area impact: The amount of economic activity generated in HUBZone-eligible tracts themselves by HUBZone contracts.

For rural HUBZone:

- ? Regional impact: The amount of economic activity generated in the local region as a whole by HUBZone contracts.
- ? HUBZone-area impact: The amount of economic activity generated in HUBZone-eligible counties within this region by HUBZone contracts.

For Indian reservations:

- ? The amount of economic activity generated in the reservation by HUBZone contracts.

The objective is to understand the employment and investment impacts of HUBZones within these areas. The employment in any given spatial area – a metropolitan area, a cluster of rural counties, a HUBZone – results from income-generating activities therein. These activities constitute that area's total output of goods and services. So output is estimated first, and then the employment associated with that level of output.

This model can be envisioned as involving injections into a target area from outside that area. Much of the cash flows injected are not retained; many – perhaps most -- leak out. Those that are retained then “multiply” into further expenditures in the HUBZone, to the extent that these injections are re-spent locally. Some portion of these expenditures leak out in turn, and so on.

The specific employment and investment impact measures that will be used to determine the short-run and medium-run impact of HUBZone procurement can now be set forth.

HUBZone Employment Impact Measures. The following measures of the impact of HUBZone on job-creation will be utilized. The time frame of analysis depends on data availability. Ideally, data for a minimum of one full calendar year should be utilized. Several input-output models are available from Government sources and from commercial vendors. One of these models will be adapted for use in the assessment of HUBZone impacts. Of

special concern here is the suitability of these models for assessing rural and Native American reservation impacts. This concern will be explored when an input-output model is chosen.

Core Measures:

1. Full-time equivalent (FTE) jobs created in HUBZone and the larger metropolitan areas or rural areas of which they are a part. In the case of Indian reservations, FTE jobs created.
2. Reduction in unemployment due to HUBZone employment.

Impact Formulas:

FTE jobs created, HUBZone =

$$(\text{Wage income generated in the HUBZone}) / (\text{Average wage per hour}) * 2,000 \text{ hours}$$

FTE jobs created, overall area =

$$(\text{Wage income generated in the overall area}) / \{(\text{Average wage per hour}) * 2,000 \text{ hours}\}$$

Change in county unemployment due to HUBZone =

$$(\text{FTE jobs created by HUBZone}) / (\text{Unemployed workers before HUBZone contracts})$$

These impacts can only be imperfectly measured, using available program and published Government data together with an input-output model. Specific information on the variables used are available in Appendix A of the HUBZone program Methodology Report, which is available on request from the Office of HUBZone Empowerment Contracting.

HUBZone Investment Impact Measures. Assessing investment impacts is a more uncertain prospect than assessing employment effects. Employment effects follow logically from stimulation of overall economic activity. To increase the demand and supply of goods and services in a given area is, in effect, to increase the number of labor hours required to generate this heightened supply.

However, investment is something else altogether. Investment involves an affirmative decision by a firm to expand the size of its productive assets and/or its plant and equipment in a given location. As economists since Keynes have recognized, the investment decision is independent of the production decision. It is made only if the firm's decision-makers feel reasonably confident about their future prospects in their industry, are confident about macroeconomic conditions, and are committed to their local micro-area.

Therefore, it is important to recognize that the investment impacts of the HUBZone program may not necessarily be made by HUBZone firms themselves. For example, nearby businesses could expand their operations due to increased commercial and industrial activity, some of it generated by HUBZone contracts won by neighboring firms. In addition, investment expenditures linked to HUBZones, at least indirectly, could occur months or even years after HUBZone procurements have occurred.

Further, residents in HUBZone areas could be motivated to purchase or renovate their homes due in part to the economic stimulus of HUBZone procurement for local firms. In a narrow interpretation, home purchases should not be considered part of “investment” per se, since these expenditures are made by households. But since expenditures of this kind enhance the capital base of the HUBZone community, they are incorporated in our measures.

An implication of this discussion is that the measures of investment impacts used here are more indirect than those available to measure employment impacts.

Core Measures:

1. Amount of investment expenditures created in HUBZones and for the larger metropolitan areas or rural areas of which they are a part. In the case of Indian reservations, investment expenditures created.
2. Changes in non-residential and residential construction permits for HUBZones.
3. Changes in the level of home-purchase loans for HUBZones.

Impact Formulas:

Investment expenditures, HUBZones =
$$(\text{Income generated in the HUBZone}) \times (\text{Proportion of expenditures in NIPA on plant and equipment})$$

Investment expenditures, overall area =
$$(\text{Income generated in the overall area}) \times (\text{Proportion of expenditures in NIPA on plant and equipment})$$

Changes in non-residential construction permits in HUBZone =
$$\frac{(\text{Value of permits in HZ, current year})}{\text{Value of permits in HZ, previous year}}$$

(same formula for residential construction permits)

Changes in home-purchase loans in HUBZones =
$$\frac{(\text{HMDA-reported home-purchase loans, current year})}{(\text{HMDA-reported home-purchase loans, previous year})}$$

Adapting Analytical Methods to the HUBZone program

The legislation authorizing the creation of HUBZones is non-specific about evaluative methods to be used. All three methods are potentially useful in assessing the impact of the HUBZone program. How useful each method will be depends on the data that are available about the program and the communities it targets.

Program-based analysis. The approved HUBZone application forms were not initially designed for, nor do they provide information about individual employees. In Section B of the application form, only two questions about employees are asked:

“Number of full-time/full-time equivalent employees at time of application.”

“Number of full-time/full-time equivalent employees who reside in a HUBZone at time of application.”

Section F goes on to ask that the applicant firm use “actual resident addresses” and not P.O. boxes. It also asks applicant firms to warrant that “records and all other pertinent information are maintained to document that at least 35 percent of its full-time/full-time equivalent employees are HUBZone residents.”

Consequently, no analysis of the characteristics of employees in HUBZone firms can be conducted at this time. A further limitation of program-based analysis is the short length of time that HUBZone participants have been in the program. Nonetheless, some useful “program based” analysis, focusing on aspects of the HUBZone program other than employees, can be done.

Model-based analysis. It is very common in the economics literature on space-based urban programs to use input-output or econometric analysis to compute these programs’ economic effects.³⁸ It might be appropriate to begin this discussion with a brief description of these two methods.

Input-output analysis is based on two core ideas about how economies work. The first idea is that spending of any type, when “poured into” an economy, gives rise to further rounds of spending by firms and households. One way of thinking of this is the Keynesian notion of an expenditure multiplier – expenditure creates income, which leads to more expenditure, which creates more income, and so on. The second notion is that expenditure-income chains might be analyzed for a given spatial area within the broader economy. Interconnections arise within this spatial area insofar as firms located therein buy and sell from other firms inside the area. Interconnections also arise insofar as households in this area buy goods and services from (and sell them to) firms within this area. In effect, the expenditure multiplier process can be viewed as occurring in the economy at large; input-output analysis asks how much of this process plays out within a particular spatial subset of the economy. The key to analysis

³⁸ Plentiful examples can be found in the articles cited by Fisher and Peters (1997), and in other articles in the issue of the *New England Economic Review* containing their paper.

of this sort is to have good information on how firms and households use income, on supply inter-linkages among firms, and on the number and types of firms and households in spatial areas of interest.

Econometric analysis also examines links among different economic variables. But whereas input-output/multiplier analysis is based on *structural inter-relations in an area*, econometric analysis is based on *correlation* between variables. Correlation arises when upward movements in one or more variables coincides or precedes, or follows upward or downward movements in other variables. Correlation of different variables often occur, but they are of interest only when movements in some variables are thought to “determine” the values of other variables.³⁹ Econometrics consists of systematic rules for constructing and interpreting equations that provide correlation among variables.

The small size of urban HUBZones – the fact that they typically encompass less than 25 percent of the tracts in a given metropolitan area – make it difficult to use *existing* input-output models. Input-out models are best used to study national-level interactions. Specialized urban models have been designed to produce results for county-level or metropolitan-level units of analysis. However, these models are not well suited for studying clusters of census tracts. This geographic mismatch can be overcome if special efforts are made to collect detailed data. But as noted, data collection of this sort is not feasible for the HUBZone program at present.

Similarly, econometric models of statistical causality are difficult to implement for the HUBZone program because they are best used with data sets of hundreds, if not thousands, of repetitive data. In the case of HUBZones, every successful contractor could be an “observation;” explaining patterns in these observations – say, the number of successful contractors per 1,000 nearby small businesses – could be done only when the program has operated long enough for a sufficient volume of contracts to have been awarded.

Despite these limitations, “model based” analysis is important, for when done well, it provides the highest possible degree of confidence about what causes what in a given result.⁴⁰ Both input-output and econometric models might be adapted for use in evaluating HUBZones. Each sort of model requires some additional discussion.

? ***Input-output models.*** In these models, the structure of any economy X is visualized as containing two parts: a net injection of funds or buying power from outside of X; and a set of internal input-output linkages within X. The funds injected into X work through X’s internal linkages to result in a net overall impact. These internal linkages reflect expenditure “multipliers”, wherein dollars that flow into X might be re-spent one or more times because of clusters of industrial suppliers, consumer outlets, and so on.

³⁹ For example, the average income per person and the number of ice cream parlors per person are likely to be highly correlated; but the latter does not explain the former.

⁴⁰ The utility of input-output analysis in policy evaluation is affirmed by the distinguished economists William Baumol and Edward Wolff (1994), who note that it is especially appropriate for “open” economies whose employment level cannot be controlled by fiscal policy. This is the analytical situation of the cities, rural areas, and Indian reservations with businesses participating in HUBZone.

- ? The smaller the injection is, the smaller will be its impact on X. The smaller X is itself, the smaller will be the impact of any injection, since the number of industrial and commercial sites grows with size. Expenditure multipliers for metropolitan areas usually fall into the range 1.1 to 2.7. They are presumed to shrink toward 1 (implying *no* re-spending) as X becomes smaller.
- ? Similarly, the denser the number of business establishments is, the larger the impact of any injection is independent of X. The more concentrated X's business establishments in industrial classifications related to the type of injection are the larger the multiplier impact will be.
- ? The small scale of HUBZone procurement in the overall flow of funds into metropolitan areas might suggest that HUBZone procurements have only miniscule effects. But it is difficult or impossible to calculate an explicit input-output model for HUBZone areas per se – so impacts at the HUBZone micro-scale cannot be known with precision.
- ? HUBZone firms may generate important “multiplier” effects, but it will be difficult or impossible to estimate them precisely. While precision is not possible, approximation is. Efforts can be made to determine whether multiplier effects in and near particular HUBZones are strong or weak. Efforts can also be made to determine whether the inflows of funds associated with HUBZone contracts are significant or insignificant in HUBZone areas.
- ? ***Econometric models.*** A variety of models of small-business survival and profitability have been developed. The roster of available models includes several developed by economists working within and with SBA.
- ? For example, a model of the determinants of small-business profitability might include an independent variable for participation in Federal procurement programs. HUBZone program data might be used in this model to determine its relative effects.
- ? This sort of estimation will be especially useful for reports when more program participation data becomes available.

Steps to estimating HUBZone employment impact

This section and the next discuss the steps required to implement the impact analysis summarized in the text. Since output is being measured both in the HUBZone area itself and in the region or urban area where the HUBZone is located, and since an input-output approach is being used, this means that estimating employment impacts involves five steps:

1. Calculating the value of the contracts secured by a HUBZone preference in any metropolitan area, rural region, or Indian reservation, for the time-period of interest. These are the “injections” to the area.
2. Calculating the size of the metropolitan multiplier (or regional multiplier, for rural counties).

3. Multiplying the injection from step 1 by the multiplier in step 2 to derive the overall impact of the HUBZone program on output/income generation in the urban or rural area in question.
4. Estimating the proportion of this output/income generation that has been stimulated within the HUBZone(s) per se, the remainder being stimulated elsewhere in the metropolitan area or rural region. This is equivalent to estimating the strength of the HUBZone multiplier per se.⁴¹
5. Estimating the amount of employment that has been generated by the estimated amount of output generation from step 4.

The employment impact can be described in units of “full-time equivalent” jobs – the number of full-time jobs that *would* be created if all the additional output estimated in steps 3 and 4 resulted in the creation of full-time jobs. Given the methodology developed here, this can be done by dividing the dollar value of the output generated by the average wages earned by a person working 40 full-time (2,000 hours per year) in that area.

Micro-level data on unemployment are available only in Decennial Census years. So a simple procedure can be implemented, as follows. Use Bureau of Economic Analysis data to determine the current number of unemployed and employed workers by county. Then find the proportion of unemployed people in the 1990 Census in this county who resided in current HUBZone areas. The FTE employment attributed to HUBZone can be understood as reducing county-wide unemployment by a ratio given by (Currently unemployed – FTE jobs per HUBZone)/(Currently unemployed). This can then be split into an overall area and HUBZone-specific effect by using the 1990 proportion.

Steps to estimating HUBZone investment impact

Investment impacts are more difficult to measure. The reason is that investment itself is a term with multiple meanings. For example, in the precise terms of macroeconomics, investment denotes firms’ planned net expenditures on additional plant and equipment, with the intention of increasing their productive capacity. In the language of financial-markets theory, investment denotes a flow of monies into assets of a given type. Investing in General Electric in this sense means buying General Electric stock, not this company’s purchases of new plant and equipment.

Because both kinds of investment are important, both are included here. For example, “investment” in a given area’s housing stock in a given time-period can denote two separate activities: first, the value of new and rehabilitated housing that is put in place in that area in this time-period, and second, the scale of net inflows into this area to purchase its available housing stock.

⁴¹ For Indian reservations, this step is skipped.

Suppose the estimate of employment impact set out above has been completed. Then the following steps are required to measure HUBZone's investment impacts:

1. Begin with the level of output/income generation, both in the overall area and in the HUBZone area(s). Next, use National Income and Product Account (NIPA) from the Bureau of Economic Analysis, Department of Commerce, to estimate the proportion of the expenditure for this output that can be classified as investment expenditure.
2. Obtain estimates of new non-residential and residential construction permits for HUBZone and for other areas, for the time-period of interest and for the immediately preceding year.
3. Augment this "expenditure-based" measure of investment by an "asset-purchase" measure. Obtain estimates of home purchases for HUBZone and for other areas, for the time-period of interest and for the immediately preceding year.

For steps 2 and 3, it would seem useful to attribute a portion of any observed difference to the impact of HUBZone contracts. However, this is not done. These two empirical measures are useful indications of asset-based investment, and both are available at the micro-spatial levels. But how much of any shifts in these variables can be attributed to HUBZone? Until HUBZone contracts are far more extensive than at present, it would be extremely difficult to make this calculation. If the program grows in scale, this judgement should be revisited. But in the meantime, these last two steps generate "indicator" variables, not quantitative estimates.

Background for HUBZone Employment Impact Measures

The employment impact measures that appear in the body of this report rely on some background formulas. These are as follows:

$$\text{Income generated in overall Metro/rural area/reservation} = \frac{(\text{Dollar volume of HUBZone contracts})}{\text{Adjusted overall area multiplier}}$$

$$\begin{aligned} \text{Adjusted overall area Multiplier} = & (\text{Basic multiplier}) * \frac{(\text{Per-capita local bank offices}) * (\text{Local median income})}{(\text{Per-capita U.S. bank offices}) * (\text{U.S. median income})} \\ & * \frac{(\text{Pct \% in local deposits}) * (\text{Per-capita local establishments})}{(\text{Pct \% in U.S. deposits}) * (\text{Per-capita U.S. establishments})} \\ & \text{(formula continues)} \end{aligned}$$

$$\text{Income generated in HUBZone area} = \frac{(\text{Dollar volume of HUBZone contracts})}{(\text{Adjusted HUBZone area multiplier})}$$

$$\begin{aligned} \text{Adjusted HUBZone Multiplier} = & (\text{Adj. overall multiplier}) * \frac{(\text{Per-capita HZ bank offices}) * (\text{HZ med income})}{(\text{Per-capita local bank offices}) * (\text{Local med income})} \\ & * \frac{(\text{Pct \% in HZ deposits}) * (\text{Per-capita HZ establishments})}{(\text{Pct \% in local deposits}) * (\text{Per-capita local establishments})} \\ & \text{(formula continues)} \end{aligned}$$

(HZ) denotes “HUBZone” in these formulas. “Establishments” here are defined as only establishments with payrolls. Further detailed information on the specific data required for these formula is set out in Appendix A. The data used are employed because they contain relatively current information on economic conditions at the micro-spatial level. Other data choices would have required larger time lags.

The above formulas are very simple in principle, if more complicated in practice. For any area, the points of logical departure are an area multiplier and an injection of HUBZone contract dollars. The dollars are converted into FTE employment, and this in turn is used to measure the program’s impact on unemployment. The area multiplier itself is constructed by taking a base-line multiplier and multiplying it by four ratios that capture the relative strength of the local economy. If the area is exactly the same in strength as the U.S. as a whole, these ratios will all equal 1. The final logical piece of the puzzle is to identify that portion of the overall imputed impact that specifically benefits the area’s HUBZone. Note that the entire calculation turns on the base-line multiplier.

Background for HUBZone Investment Impact Measures

Three relatively autonomous measures of investment impacts are recommended. The first of the three is linked directly to the quantitative measures developed for employment-impact estimation. The other two, however, are independent of this input-output analysis.

The calculations used in the investment-impact measures are based in part on formulas associated with the employment-impact measures. Note that the second and third measures are presented simply as ratios, without an effort to attribute a specific quantum to HUBZones. This was explained above. Consequently, these three measures are ranked in order of importance.

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Appendix C

FY 2001 HUBZone Contract Data

The Federal Procurement Data Center (FPDC) released the attached FY 2001 contract data for the HUBZone Program.

There has been an increase in the award of contract dollars to HUBZone firms over the previous fiscal year total. The FPDC reports that the number of contract actions for HUBZone Small Business Concerns (SBCs) during FY 2001 was 8,466. This is a 141 percent increase in the number reported for FY 2000. The report states that HUBZone SBCs received \$1.6 billion in contract awards during FY 2001, which is a 138 percent increase over FY 2000.

Using historical data,⁴² linking job creation to sales by industry, the SBA estimates that for each \$90 thousand in sales a HUBZone firm employs one additional person. When applied to the value of the contract actions reported to the FPDC for HUBZone SBCs in FY 2001, it appears that the HUBZone program created approximately 17,000 jobs. This equates to about \$118.00 per job when divided into the operating budget of the HUBZone program. When compared to the average amount of Federal income tax⁴³ paid per tax return, the HUBZone program produces a net gain of \$155.7 million to the Federal Government.

Overall, HUBZone SBCs have received 0.72 percent of all Federal contract dollars in FY 2001. While this is short of the Congressional goal of 2 percent, it does represent an upward trend in HUBZone contracting activity. In fact, for the first time, several large agencies, including the Department of the Interior, Department of Transportation and the Department of Agriculture, met or exceeded their HUBZone goals for the year.

Based on the outreach efforts to Federal contracting officials, the release of new training tools, the continued expansion of the portfolio of HUBZone SBCs, and recent changes to regulations, the SBA anticipates this trend will continue.

⁴² Formula provided by the SBA Office of Size Standards based on a special tabulation for the SBA of the 1997 Economic Census prepared by the Bureau of Census.

⁴³ According to the Internal Revenue Service the average amount of Federal income tax paid per tax return in 1999 was \$9,280.00.

**FEDERAL PROCUREMENT DATA SYSTEM
HUBZone Contract Actions FY 2001**

Major Federal Agency	Actions	000	%
TOTAL FEDERAL	8,466	\$1,581,045	0.72
OFFICE OF THE PRESIDENT	3	\$113	0.34
AGRICULTURE	539	\$93,706	2.46
COMMERCE	35	\$6,658	0.56
DEFENSE	4,299	\$1,015,261	0.71
EDUCATION	1	\$950	0.1
ENERGY	86	\$11,831	0.06
HEALTH AND HUMAN SERVICES	841	\$29,366	0.61
HOUSING AND URBAN DEVELOPMENT	16	\$2,250	0.28
JUSTICE	240	\$44,020	0.91
LABOR	14	\$3,710	0.27
STATE	28	\$5,769	0.38
INTERIOR	620	\$55,730	2.6
TREASURY	233	\$26,498	1.06
TRANSPORTATION	253	\$77,655	3.12
VETERANS AFFAIRS	573	\$113,478	1.94
AGENCY FOR INTL DEVELOPMENT	0	\$0	0
AMERICAN BATTLE MONUMENTS	0	\$0	0
BROADCASTING BOARD OF GOVERN	1	\$1	0
COMMISSION ON CIVIL RIGHTS	0	\$0	0
COMMODITY FUTURES TRADING	0	\$0	0
CONSUMER PRODUCT SAFETY	0	\$0	0
CORP FOR NATL & COMMUNITY SERVICE	0	\$0	0
DEF NUCLEAR FACILITIES SAFETY	0	\$0	0
ENVIRONMENTAL PROTECTION AGENCY	49	\$1,400	0.13
EQUAL EMPLOYMENT OPPORTUNITY	0	\$0	0
FEDERAL COMMUNICATIONS	0	\$0	0
FEDERAL ELECTION COMMISSION	0	\$0	0
FEDERAL EMERGENCY MGMT AGENCY	8	\$803	0.26
FEDERAL ENERGY REG COMMISSION	0	\$0	0
FEDERAL MARITIME COMMISSION	0	\$0	0
FED MEDIATION & CONCILIATION	0	\$0	0
FED MINE SAFETY & HEALTH REVIEW	0	\$0	0
FEDERAL TRADE COMMISSION	0	\$0	0
GENERAL SERVICES ADMINISTRATION	420	\$67,275	0.63
INTERNATIONAL TRADE COMMISSION	1	\$2	0.05
KENNEDY CENTER	4	\$853	4.86
MERIT SYSTEMS PROTECTION	0	\$0	0
NATL AERONAUTICS & SPACE ADMIN	131	\$15,974	0.14
NATL ARCHIVES & RECORDS ADMIN	0	\$0	0
NATL ENDOWMENT FOR THE ARTS	0	\$0	0
NATL ENDOWMENT FOR THE HUMANITIES	0	\$0	0
NATIONAL GALLERY OF ART	0	\$0	0

NATIONAL LABOR RELATIONS BOARD	0	\$0	0
NATIONAL MEDIATION BOARD	0	\$0	0
NATIONAL SCIENCE FOUNDATION	2	\$187	0.3
NATL TRANS SAFETY BOARD	0	\$0	0
NUCLEAR REGULATORY COMMISSION	4	\$557	0.7 1
OCCUPATIONAL SAFETY & HLTH REV	0	\$0	0
OFFICE OF PERSONNEL MANAGEMENT	0	\$0	0
PEACE CORPS	3	\$870	5.2 7
RAILROAD RETIREMENT BOARD	0	\$0	0
SECURITIES AND EXCHANGE	0	\$0	0
SELECTIVE SERVICE SYSTEM	0	\$0	0
SMALL BUSINESS ADMINISTRATION	4	\$119	0.1 7
SMITHSONIAN INSTITUTION	1	\$0	0
SOCIAL SECURITY ADMINISTRATION	57	\$6,009	1.1 2
US HOLOCAUST MEMORIAL MUSEUM	0	\$0	0
US SOLDIERS AND AIRMENS HOME	0	\$0	0
US TRADE AND DEVELOPMENT AGENCY	0	\$0	0
	8,466	\$1,581,045	0.7 2